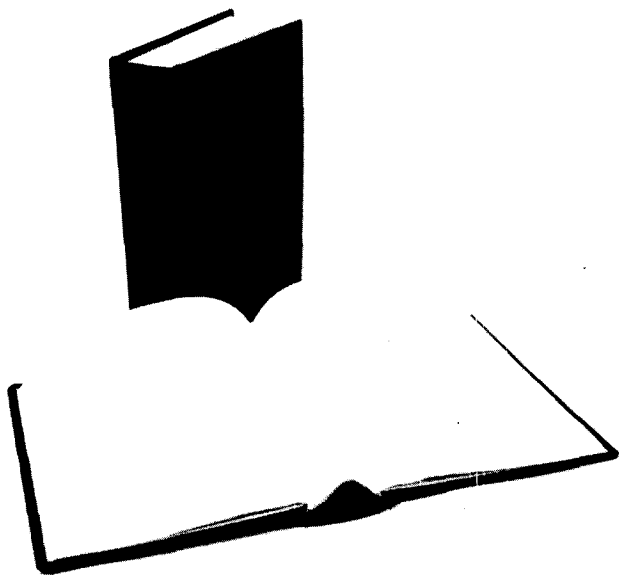


the
Freeman
Ideas on Liberty

APRIL 1985

**Do Machines
Destroy Jobs?**



the Freeman 1984

12 Issues in One Bound Volume

Only \$7.50

Attractively sewn in a single volume with hard cover, the twelve issues from January through December—768 pages, fully indexed for handy reference to the latest literature on freedom.

Also available, the bound volumes for 1969 through 1983, each year \$7.50 (\$6.00 each on orders for five or more.)

Order from **The Foundation for Economic Education**
Irvington-on-Hudson, New York 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Freeman

VOL. 35, NO. 4

• APRIL 1985

Winners and Losers—

A Page on Freedom, No. 18

Brian Summers 195

In free trade, both parties win.

Profit-Maker—Friend or Foe?

Howard Baetjer Jr. 196

How the market economy serves us.

Inflation: Soviet Style, 1945

William H. Peterson 207

A runaway market in fiat money.

Some Things to Think About

Hal Watkins 209

The coercive versus the voluntary way.

Limited Government

Steven E. Daskal 215

National stability through limited government and market freedom.

Laws Against Plant Closings

Hans F. Sennholz 219

Labor unions and government combine to thwart business adjustments.

Essay on Caring

Ridgway K. Foley, Jr. 230

Pitfalls in the political process of caring for others.

Do Machines Destroy Jobs?

Dean Russell 235

Bastiat's lesson on the blessings of capital.

Set the Standard High

Dennis L. Peterson 243

Social improvement comes through self-improvement.

Information in the Market

Joe Cobb 247

This information may be harmful to you.

Book Reviews:

251

"The Good News is the Bad News is Wrong" by Ben Wattenberg

"Inside the Criminal Mind" by Stanton Samenow

"Ideas Have Consequences" by Richard N. Weaver

Anyone wishing to communicate with authors may send
first-class mail in care of THE FREEMAN for forwarding.

the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

President: John C. Sparks
Managing Editor: Paul L. Poirot
Production Editors: Beth A. Hoffman
Amy S. VanLaar
Contributing Editors: Robert G. Anderson
Howard Baetjer Jr.
Bettina Bien Greaves
Charles H. Hamilton
Edmund A. Opitz (Book Reviews)
Brian Summers

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average \$18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of \$10.00 a year.

Copyright, 1985. The Foundation for Economic Education, Inc. Printed in U.S.A.
Additional copies, postpaid: single copy \$1.00; 10 or more, 50 cents each.

THE FREEMAN is available on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Mich. 48106.

Reprints are available of "A Page on Freedom," small quantities, no charge; 100 or more, 5 cents each.

Permission is granted to reprint any article in this issue, with appropriate credit, except "Laws Against Plant Closings" and "Do Machines Destroy Jobs?"

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Winners and Losers

It all seems so obvious. For every winner there must be a loser. This is true in sports, gambling, love and war. Shouldn't it also be true for economics?

But in economics, as we shall see, what at first glance appears to be obvious often turns out to be false.

Suppose you buy a toaster for twenty dollars. You buy it because you feel that the toaster, for you, is worth more than twenty dollars. You gain from the transaction, otherwise you wouldn't make the purchase. You are a winner.

But the seller is also a winner. He sells the toaster because, for him, the twenty dollars is worth more than the toaster. If he didn't feel that way, he wouldn't make the sale.

In this simple example, both parties, by their own standards, are winners. And this is true for every transaction freely entered into, in which fraud and coercion are absent.

But sometimes examples seem to be more complicated. Suppose, for instance, the toaster was made in a foreign country. Wouldn't that change things?

To be sure, this would change some of the details. But the basic principle remains the same: The customer will buy only if he feels he will be better off. The same holds for the seller. In free trade, both parties are winners.

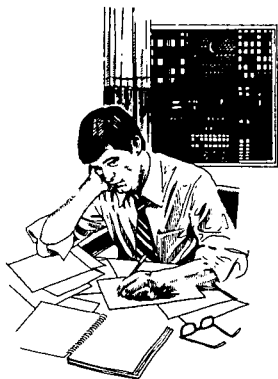
This principle helps us to understand every economic transaction. Whenever we see someone buy a product, take a job, or enter into a contract in the absence of force and fraud, we know that he expects to be a winner.



—Brian Summers

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

Profit-Maker— Friend or Foe?



Is one who makes profits an exploiter, as is so often claimed? Or is that person a social benefactor? Do profits arise from harming others or making them better off? Do profit-makers deserve resentment or gratitude? To examine this question, we will need to look at opposing economic theories of value and profits. But before that, we had better be clear about the nature of wealth, what it is and how it comes to be.

What is wealth, precisely? Is money wealth? Suppose you could wave a magic wand, and become owner of millions of dollars, billions of marks, trillions of yen, and gold and silver coins by the truckload. Would that be sufficient to make you wealthy?

Suppose that as you waved that

magic wand, you found yourself, with all that money, on the very spot you now occupy, in 1585. If you are in North America, there would be nothing in sight but the rocks and trees and grasses and streams, and maybe a stray Indian.

You would be a trillionaire, but would you be as wealthy as you are at this moment, no matter how meager your bank account might be? No. Real wealth is not money. Wealth in the strictest sense is valuable *things*—things we can use to support and enrich our lives. It is goods and services: food, clothing, shelter, electric light, symphony orchestras, diesel engines, milkshakes and so on. That is the first point: *wealth is valuable goods and services.*

For the second point, how does wealth come to be? Does it shower down like manna from heaven, or grow out of the ground all ready for our use? Do houses spring up from

Howard Baetjer Jr. is a member of the staff of The Foundation for Economic Education, primarily responsible for taking FEE's message to schools and colleges.

the earth and furnish themselves for us; do big jetliners lay eggs from which hatch little jets? No. These things have to be created; they have to be built; they have to be brought into existence by the ingenuity and labor of people. That's the second point. *Wealth is created by people.*

But, out of what do people create this wealth—with what do they build it? Do they snap their fingers or wave a magic wand, and produce it from nothing? No. They build it out of what is already here. To take a phrase from my colleague Bettina Greaves, we have progressed from caves to computers simply by moving things around—most thoughtfully and exactly, to be sure—but just by moving things around. The clay, iron and other substances that compose buildings have existed as long as the earth has, but they are more usefully arranged now into cinder-blocks and steel beams. The electrons going through fluorescent lamps were here, too, but not arranged in that clever combination with glass tubes and vapor so as to make light. What makes *wealth* of raw substances is the value of their arrangement. The third point, then, is that people create wealth *by cleverly rearranging and recombining the natural things that make up the earth.*

To sum up, *wealth* is valuable goods and services, which ingenious people create, by rearranging and

recombining the physical stuff of the earth. The last part of this is most significant: wealth comes to be when somebody discovers and produces a better, *more valuable arrangement* of things.

What Determines Value?

We can accept the above proposition that wealth is essentially a valuable arrangement of things, but that invites the question: What makes something valuable? Why are some things wealth and other things worthless? Why do Cadillacs cost more than matchbox toys, sirloin steak more than hamburger, tickets to see Michael Jackson more than tickets to see the Chicago Symphony? *What determines value?*

This is a fundamental question, on the right and wrong answers to which are built right and wrong theories of profits, and entirely different answers to our main question about whether the profit-maker is an exploiter or a benefactor. We begin with the generally accepted theory, which also happens to be wrong.

Labor?

One of the greatest economists ever, Adam Smith, misunderstood value, and thereby started a long chain of confusion. Smith was a proponent of *the labor theory of value*, which holds in essence that the value of a thing is determined by the

amount of labor that went into making it. To quote from *The Wealth of Nations*, "Labour, therefore, is the real measure of the exchangeable value of all commodities." Notwithstanding the brilliance of most of Smith's other ideas, this is an error.

Karl Marx picked up Smith's error and added more mistakes on top of it to produce his theory of *profit*. He argued that since the value of a thing is determined by the labor that went into it, laborers—and laborers only—are responsible for the thing's value.

If you are a worker on a ranch, for example, and you fertilize a field, plant alfalfa seed, irrigate it, cut the ripe alfalfa, bale it and stack it up for delivery; you, the laborer, are responsible for transforming the alfalfa seed and other raw materials into, say, \$1000 worth of feed for cattle. Suppose the raw materials—the fertilizer and seed, the gasoline for the cutters and balers, the baling wire and the like—cost the owner of the ranch, your employer, \$400. The "labor value" Marx says *you* added, then, is \$600.

But all you get for your work is your wages, say, \$500. This leaves your employer a hefty profit of \$100. But he didn't labor at all; how is it that *he* has extra money? According to Marx's theory, this profit for your employer is "*surplus value*," the labor value you put into the hay, that he didn't pay you for. You did \$600 worth of work, but only got paid

\$500. You deserve all \$600. Your employer has appropriated from you—stolen from you—\$100 worth of the product of your labor.

To move on to the third part of this foolish but widely believed theory, in this way employers "exploit" their workers. Your employer takes his profit, the "surplus value" of your labor, at your expense. It was created by you; therefore it rightly belongs to you, according to this theory. The very fact of profit, then, shows there has been exploitation.

The "Zero-Sum" Idea

This whole ideological package—the labor theory of value, profits as surplus labor value, and the exploitation of working for wages—depends on and illustrates another fair-sounding but wrong idea, the *zero-sum* view of the world. This is the idea that if somebody profits, somebody else must be harmed, because after all there is only a certain amount to go around. If we add up, or *sum* the changes in economic condition of everybody, we must always come out to zero, because one person can gain only what another loses. Business activity simply shifts around existing wealth. That's the zero-sum view.

Those who believe in the labor theory of value—who hold the zero-sum view of life—*necessarily* see the profit-maker as an exploiter. This includes not just Marxists, but also

milder leftists. A congressman, for example, once criticized the oil companies for making “obscene profits.” And, sad to say, many men and women in business somehow think all this is true. They want to make profits, of course, and they strive very hard to make them. But they feel guilty about it. They worry that they are profiting at the expense of others, that in truth, they are exploiters—vicious capitalists who prey on their fellows.

This worry shows how very powerful error can be, because it *just isn't so*.

The Subjective Theory of Value

Though the labor theory has a certain plausibility, we can see that it is false by a simple example. Suppose the amount of work that went into making a commodity *did* determine its value. Then suppose that on neighboring ranches, two different crops are produced, each requiring and getting the same amount of labor. Suppose one ranch raises alfalfa, and the other raises poison ivy. If the labor theory of value were true, the two crops would have to be worth the same!

But obviously they are not worth the same. People will pay much more for hay, which nourishes cattle, than for poison ivy, which makes people itch. And therein lies the key to the true theory of value. People's personal *preferences* determine value

and price. They will pay more for what they *want* more. The true theory of value is a *subjective theory of value*. Value exists not in the thing valued, but in the minds of the valuers.

This subjective theory of value is a critically important economic concept, one of the crucial insights on which the so-called “Austrian” school of economics is based. It was discovered by three economists, Carl Menger, Stanley Jevons, and Leon Walras, all working independently, at just about the same time—the early 1870s. With it they cleared away Adam Smith's labor theory error, and opened up the way to a proper understanding of profits.

Once the labor theory of value goes, of course, the Marxian theory of profits immediately goes with it. Since there is no such thing as “labor value,” then clearly the Marxian notion of profits as “surplus labor value” is false.

An accurate view of profits is built on two implications of the “Austrian” subjective value theory. The first is this: a certain thing does not have one value for all people in all different times and situations. Values are different for different people, and they change all the time. (I might add that in speaking of values as subjective I do not mean moral values such as courage and honesty, which are always fundamentally valuable in their way, but only per-

sonal valuations of marketable goods.)

Values change and vary. This is crucial. The same thing can have *different* values for the same person in different times and situations, and it can have different values for different people at the same time and in the same situation. For example, right after you have eaten a full meal, you probably would not pay much for a large milkshake. But as time goes by you start to get hungry again, and gradually the price you would pay for a milkshake increases. If you have to go without food for a long time, especially in hot weather, you might eventually be willing to pay five or six dollars for a milkshake. Its value for you changes with your situation.

When Trade Is Voluntary Both Parties Benefit

This obvious truism, that values vary and change, leads in turn to a second important insight: When an exchange is made in a free setting, *both* parties to the exchange *benefit*. The things exchanged are not of equal value, as has so often been thought, but of different value—to the people exchanging. Indeed, that is why they make the exchange. Consider yourself, for example, when you do business with a milkshake vendor. The value you put on the milkshake in your situation is greater than that of the people sell-

ing it. You value the milkshake more than the money; they value the money more than the milkshake. Otherwise there would be no exchange at all. You give up your money; they give up the milkshake. Both parties say thank you; both parties are happy; both have benefited.

The situation is similar where the exchange is not of ice cream for money, but of *labor* for money. Consider those of us who worked as summer laborers on a Nevada ranch harvesting alfalfa. We drove the machines, built fences, painted storage tanks and so on, earning slightly over minimum wage. When we took those jobs, offering the ranch owner our work in exchange for his money, we valued the money he gave us more than the time and labor we gave him, and he valued our work more than the money he gave us. There was benefit on both sides.

Marx's exploitation theory thus reverses the truth. Workers are not exploited by their employers. On the contrary, in a free exchange they are benefited by their employers—and vice versa. That's the nature of free exchange. True, we might have wished that our efforts were worth more—that we could have commanded a higher wage—but in our particular situation in that time and place, that job at that wage was better than any other available use of our time and effort.

Free Exchange Is Positive Sum

In a free exchange, both parties benefit. Note that this fact disproves the zero-sum assumption of economic life. In a free-market exchange, neither party loses for the benefit of the other; both parties benefit, or they would not exchange at all. Free exchange in a market setting is not a zero-sum game, but a *positive* sum game.

While we're on it, let's make another point about this zero-sum idea. Those who believe it often remind us that resources are finite: they imply by this that therefore *wealth* is finite. True, resources are finite, if by resources they mean only raw materials. But the ultimate resource, as Julian Simon has pointed out in a book by that name, is people—human ingenuity and creativity. Of that resource there seems to be no limit at all. Human beings are astonishingly ingenious, creative creatures. They have a seemingly unbounded capacity to figure out better arrangements for these finite raw materials.

And for this reason, the finiteness of physical resources does not put any bounds on wealth. Wealth, as we saw at the outset, is not in substances, but in their arrangement. With the same physical substances, creative people can increase the amount of wealth until the crack of doom, through ever-better arrangements of those substances.

Profits

To understand fully what profits are and how they are made, we need to add one more concept to those we have already observed. We have seen that people create wealth by favorably rearranging and recombining physical things, and that different people place different values on things. To these concepts we add one more thought: our *knowledge is imperfect*. Most importantly, we have very imperfect knowledge about the most valuable ways to arrange and combine things. Often we do not know of mutually beneficial exchanges we might make with others. Or, knowing of exchanges we would like to make, often we don't know how to manage them inexpensively enough. And nobody knows of valuable products and methods that have not yet been discovered.

With these three concepts we can define profits. *Profits are what result from somebody's overcoming imperfections of knowledge, discovering and producing a more valuable arrangement of things.* Put another way, profits are a person's reward for increasing value, for increasing wealth. Remember that wealth is in the arrangement, not in the substances: he or she increases wealth who comes up with a more valuable arrangement.

Let's illustrate this with an example.

Suppose Mr. Phelps, the owner of

the ranch where I worked, has a number of big stacks of hay that he would like to sell. In that situation, Mr. Phelps puts a relatively low value on hay. Let's suppose he would take as little as five dollars a bale for it. His knowledge is imperfect. He knows that there are lots of dairy farmers in California and New Mexico and Nevada who would like to buy his hay, but he does not know exactly who they are, how much they need, or what they would pay for it. Furthermore, he does not know where to get trucks and drivers to ship his hay. At the same time there are lots of dairy farmers who put a relatively high value on hay. They would be glad to pay up to six dollars a bale for it. They know there are ranchers with hay to sell, but they aren't sure where those ranchers are, or how much they can deliver. And they don't know where to get trucks and drivers either. This is a problem for both Mr. Phelps, who has the hay, and the dairy farmers, who need it.

These folks are in a situation where they *might* make a mutually beneficial exchange, but they can't manage it. What they need now is for somebody to discover this unfavorable arrangement, figure out how to fix it, and do so. They will be glad to reward someone who does.

At the same time there are people leasing eighteen-wheeled flatbed trucks that might be used to ship hay, but they don't know about

Phelps and the dairy farmers. And there are oil distributors, selling diesel fuel that could run those trucks from Nevada to California, but they don't even know what alfalfa is. And there are truck drivers who would like to make the run, if somebody told them where to go, and offered them a better deal doing that than something else.

All the potential is there for half a dozen mutually desirable exchanges. But so far, nothing happens. The hay sits in the lot, the dairy farmers fret, and the trucks, the gas, and the drivers are being used to deliver things less important than that wonderful, high-protein hay. All these resources need somebody to coordinate them properly, to rearrange and recombine them into greater wealth than they make up in their present arrangement. What is needed is an *entrepreneur*.

The Role of the Entrepreneur

Along comes the hay broker. He leases the eighteen-wheeled trucks, buys the diesel fuel, and hires the drivers, giving each one directions to Mr. Phelps' Ranch and from there to the dairies. He negotiates with Mr. Phelps to buy hay at, say, \$5.25 a bale, and with the dairy farmers to sell it at, say, \$5.75 a bale.

Now, is Mr. Phelps better off? Yes, he has made 25 cents a bale more than he would have accepted. Are the farmers better off? Yes, they had

to pay 25 cents less than they would have paid. Is the leasing company better off? Yes, they expect to be, or they never would have rented out their trucks. Likewise the fuel distributor and the drivers would not have dealt with our entrepreneur unless they thought they would benefit by it. So everything our entrepreneur has done so far has meant benefits for those around him.

Now let us suppose the entrepreneur's expenses add up to 25 cents a bale. This includes all the costs of doing business: wages for the drivers, fuel costs, maintenance on an office, payments for the trucks, insurance premiums, clerical costs, phone bills, the wage value of his own time and so on. Added to the \$5.25 he paid for the hay, that brings the total market value of the starting arrangement of things (call it the cost of inputs) to \$5.50 a bale. But since the market value of the final arrangement (call it the yield) is \$5.75 a bale, he has 25 cents a bale left over.

That is his *profit*. It is the yield minus the costs. It is his reward for *increasing wealth*, for taking what is valued less, and transforming it into what is valued more. It is his payment for discovering and producing a more valuable arrangement of things. He does not profit at the expense of those around him; he profits precisely because the result of his activity, when all is said and done, is

more valuable than the state of affairs that existed when he started—by 25 cents a bale.

Note that the size of the profit depends on the amount of improvement overall, the size of the difference between the less valuable starting arrangement (the costs) and the more valuable finishing arrangement (the yield). It depends on *the overall increase in value*. The hay broker does not just have to discover who has hay and who needs it, and sell it for more than he buys it. He also has to discover good trucks to use, quick and efficient means of loading and unloading, cheap fuel, good mechanics, dependable drivers, short routes and so on, so that all these costs together are less than what he makes on the hay itself. His profit, if any, depends on his efficiency, on his producing more value than he consumes.

This efficiency is itself a social service, because it saves valuable goods for other purposes. The quicker his loads are delivered, the less hay is spoiled and wasted. The less fuel he burns and driver time he uses, the more of these are left over to deliver other valuable goods.

Losses

The opportunity for profit always involves the possibility of loss. Profits are never guaranteed in this uncertain world. The entrepreneur loses when his costs, the total value

of the resources he uses up, are greater than the yield, the value of the new arrangement. He loses, and society loses, because the total stock of wealth is decreased. Suppose our hay broker is inefficient. Suppose he wastes fuel, that his drivers waste time loading and unloading, and get lost making deliveries. Suppose he leases smaller trucks than he should, so that he needs more trips to deliver the same amount. These inefficiencies might push up his total cost of delivering each bale to 50 cents, instead of 25. And his slow delivery will allow more spoilage of the hay, so that perhaps he will be able to sell it for only \$5.65 a bale, instead of \$5.75. Now his costs are greater than his yield, so instead of profits, he makes *losses*, of 10 cents a bale. This means—indeed, it is the same thing as saying—that he has used up more valuable resources than he has produced, at a rate of 10 cents a bale. He loses, because society overall loses.

Mr. Phelps still gains, of course, as do the dairy farmers and the truck leasers and the fuel sellers and the drivers. They would not deal with him if they did not see an advantage in doing so. But the society overall is worse off; it would have been better on the whole if this hay broker had never made the deliveries, if the trucks, the fuel and the drivers had been left at their previous uses (assuming they were profitable).

The greater the entrepreneur's profit, the better off his society must be. Bigger profits mean bigger improvements, bigger differences between the resources consumed and the value produced. (They also encourage competition, of course, which tends to increase supply, lower prices, and thus reduce profits; but that's another subject.) Profits cannot be obscene; the bigger the better! They are all to the good for society. Far from being exploiters, entrepreneurs who make profits are social benefactors of the first order, for they are the ones who create wealth, who increase the total amount of valuable goods in the world.

Who Deserves the Profits?

I first appreciated the importance of entrepreneurial brainwork, and the difficulty of the entrepreneur's job, after work the first day I drove a baler. At the same time I realized how silly is the popular notion of "unfairness" in the laborer's doing "all the work" for nothing more than wages, while the entrepreneur does no labor but earns all the profits.

I had been on the baler all day, the usual ten hours, from seven to six with an hour for lunch. The Nevada sun was hot, and the work was dusty. As usual, Mr. Phelps had been cruising around, checking on us from his air-conditioned, white Lincoln Continental. We were sweating for just over minimum wage. He wasn't

working, but he was making the profits. It doesn't *look* fair, does it? It didn't to me—until I looked closely.

I had had fun, and when I saw him in the machine shop talking to his foremen I called out proudly, "Hey, Mr. Phelps, I learned how to run a baler today!" He gave me a smile with a friendly sneer and said, "Baetjer, you didn't learn to *run* a baler, you learned to *point* a baler." In a moment of insight I understood how dependent the laborer's contribution is on that of the entrepreneur, and why the entrepreneur deserves every penny of his profits.

What he said was true. I had baled a whole lot of hay that day, but I didn't know a thing about it. I couldn't even fix the small problems I had with my machine, let alone service it properly or make a major repair. Any worker could do what I had done, steering the tractor up and down the fields, but it took skilled mechanics to keep the balers running, and adjust them so that the bales would be the right size and weight. It had taken careful planning and inventory control to see that there was always baling wire and fuel on hand, and to keep spare parts in stock (they say they have them for every part of every machine!). The effectiveness of my simple, thoughtless work pulling that baler was utterly dependent on Mr. Phelps, who had arranged to get it there, had it prepared for use, and

put me aboard it in a field of new-cut hay.

Sure, I had baled the hay, but who got it there to be baled? Think of the extraordinary sequence of precise, interdependent rearrangements of physical resources, labor and technical know-how that Mr. Phelps had arranged in order to produce that crop. The soil chemistry of the land had to be analyzed; on the basis of that analysis fertilizer had to be chosen, ordered and spread. The fields are not naturally even, so they had to be smoothed as well as possible, and sloped at the ideal rate for irrigation. (Most recently this smoothing of the fields is done by a laser-plane, in itself an extraordinary entrepreneurial achievement of hydraulics and laser technology.)

The alfalfa seed had to be chosen from among different strains, bought and sown, at the right time and in the right amounts. Since the valley gets very little rainfall, a complex irrigation system had to be built and maintained, and the irrigation carried out on time, in the right amounts, and at the right rate. When the alfalfa started to bloom, it had to be cut, weather permitting, as close as possible to that brief time when the protein content in the plants is highest. The drying hay had to be monitored for moisture, so that the bales would be neither damp nor dried out.

At each step of the harvest process,

the necessary machines, costing tens of thousands of dollars each, had to be ready. There are the "swathers," which cut, crimp and pile the hay into windrows; the balers; and the harobeds, computerized marvels of levers and platforms, which pick up, load and stack the bales. All must be in use on time, because once the hay is cut, it must be dried, baled and stacked without delay to maintain its value. During the harvest, the hay broker must be contacted and negotiated with, the fields and irrigation ditches repaired, and the next round of irrigation planned.

Every step of this extraordinary process must be directed by Mr. Phelps, the entrepreneur. Each crucial decision, on which depends success or failure, profit or loss, must be made by him, either directly or through the men he has hired to make them. In any case, the respon-

sibility for the result, be it credit or blame, is his. One good decision made in that white Lincoln Continental was worth a whole day's worth of pointing a baler, and a whole summer's worth of baling could not make up for one bad decision. All I did was steer. He did the *thinking*. That is why the entrepreneur deserves the profits: he makes them possible!

The successful entrepreneur, one who makes business profits in a market economy, is a social benefactor. (In a mixed economy, with government intervention and privilege, things are often different, but that, too, is another subject.) Indeed, the profiler is the most important, most significant kind of benefactor any society has, because such a person provides, in ever greater measure, the wealth all the rest of us depend on to support and enrich our lives. ☸

Reprints . . .

A Page on Freedom

Each of these brief messages is a handy way to share with friends, teachers, editors, clergymen, employees and others a thought-starter on liberty. It also serves to introduce the reader to our work at FEE.

See page 195 for this month's *Page on Freedom*. (Copies of previous messages are also available; specify title when ordering.) Small quantities, no charge; 100 or more, 5 cents each. Or, feel free to reprint the message in your own format if you'd prefer.

We hope you'll enjoy this feature!

Order from:

FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533



Inflation: Soviet Style, 1945

If inflation is a matter of sharp run-ups in the money supply (“too much money chasing too few goods”), I witnessed that phenomenon first-hand, and it was a lesson I’ll never forget.

The time was the summer of 1945. The place was Berlin, site of four military powers—the U.S., France, Britain and the Soviet Union—occupying an utterly ruined, once-beautiful metropolis.

As a member of the American armed forces, I saw right away what *Stars and Stripes*, the Army newspaper, was reporting: that a sizeable flea market had sprung up behind the burnt-out Reich chancellery on a corner of the Tiergarten (not far from

the bunker in which Hitler had committed suicide), that the market functioned daily at all hours, slowing down only for darkness or drenching rain, that the number of traders was usually in the dozens but swelling to the hundreds on Sunday afternoons, that the trading—and higgling—was never in booths but always on foot with traders circling around to get the best bid-and-ask prices, with most merchandise sold generally passing from pocket to pocket.

The traders were not Germans nearly so much as uniformed Russians and Americans with fewer British and French soldiers participating.

With German money worthless, the currency was occupation marks—lots of it. Soviet plates were supplied

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

by the U.S. Treasury Department, according to *Stars and Stripes*, the Soviet occupying forces were suddenly given months and months of back pay—in occupation currency. Russian officers frequently carried satchels full of it. Russian enlisted men often had bagfuls.

Prices zoomed. German men and women, for the most part ragged, hollow-eyed, thin, forlorn-looking, peddled what wealth had escaped the bombing and burning—silver, jewelry, Zeiss binoculars, Leica cameras, Meissen china (frequently chipped) and bric-a-brac including ashtrays, lamps, clocks and cheap paintings—all at fancy prices. I saw a used commonplace alarm clock go for the equivalent of \$85—in 1945 dollars.

The main stock in trade, however, consisted of wrist watches and cigarettes (which became a kind of secondary currency). The watches and

cigarettes were overwhelmingly supplied by the Americans, much of these items flown in unofficially by U.S. airmen, and overwhelmingly bought by the Russians.

Prices became crazier. A carton of cigarettes went for \$200. I saw Mickey Mouse wrist watches (which sold at home for about \$5.95) command \$150 and Waltham watches, retailing in the States for around \$16.95, sell for \$300.

Understandably, the U.S. Army Post Office in Berlin did a land-office business in money orders, with the 82nd Airborne Division, the main U.S. contingent stationed in the German capital, sending home far more money than it had been paid. In the end, some \$250 million worth of Soviet occupation currency, according to estimates, had been converted into dollars—with the bill of course picked up by the American taxpayer. Who else? 

Obliteration of Thrift

AS VALUES became more and more uncertain, there was no longer any motive for care or economy, but every motive for immediate expenditure and present enjoyment. So came upon the nation the *obliteration of thrift*. In this mania for yielding to present enjoyment rather than providing for future comfort were the seeds of new growths of wretchedness: luxury, senseless and extravagant, set in. This, too, spread as a fashion. To feed it, there came cheater in the nation at large and corruption among officials and persons holding trusts.

ANDREW DICKSON WHITE, *Fiat Money Inflation in France*

IDEAS ON



LIBERTY

Some Things to Think About

LUDWIG VON MISES is remembered and respected as a great economist, but it is significant that his most memorable work is a book called *Human Action*. Classic libertarians use this volume as their textbook on economics. Mises recognized that materialism is not the basic motivation for human action, but that there are more subtle stimulæ involved.

Materialism is not synonymous with self-interest, but many intelligent, sincere people think it is. By taking advantage of this confusion socialists/communists are able to sell their delusion to the unsuspecting. These interventionists take advantage of a primitive motive that manifests itself prominently in early childhood: covetousness. When you

put two one-year-old children in a playpen with a few toys, this motive becomes obvious. If one picks up a toy, the other will want it and reach for it. About that time, the parents begin their lessons in sharing, and the children are completely baffled by such a concept.

Communists also teach sharing, sharing with the State. The State then “shares” with the less fortunate—if the less fortunate meet all the ideological criteria laid down by the oligarchy in charge of the State. This is raw materialism, based on the idea that it is impossible for a human being to rise above covetousness. Actually, communists prefer it that way. They find it difficult to keep their serfs in subjection when they develop motives on a higher plane. This is the fundamental reason for communist opposition to religion. Christianity denigrates cov-

The Reverend Mr. Watkins edits and publishes *The Printed Preacher*, a monthly gospel message, 303 North Third, Dayton, Washington 99328.

etousness and replaces it with loftier motives.

"Finally, brothers, whatever is true, whatever is noble, whatever is right, whatever is pure, whatever is lovely, whatever is admirable—if anything is excellent or praiseworthy—think about such things" (Philippians 4:8). The Christian scriptures encourage us to think about what is true, noble, right, pure, lovely, admirable, excellent, praiseworthy. I am convinced there is no conflict here with the free market system. Contrariwise, this quality list can be said to be almost 100 per cent opposed to socialism. (I am using the qualifying word "almost" in the event there may be something I have overlooked, but I seriously doubt the word is useful here.)

The Truth About Freedom

Does freedom in the marketplace have the ring of truth about it? Is competition an advantage to the consumer, or would he be better served if the State (politburo, council of economic advisors, or whatever) determined what he should buy, how many and what quality? Back in the 1930s the college professors told me the capitalistic system wasted enormous quantities of goods and energy because of its competitive nature. It would be better if the Technocrats (socialists, communists, fascists) should assemble in their board rooms and determine just what was

needed and how much. This would eliminate waste and everyone would be amply supplied. That was a lie, but at that time I did not know it. I was being fed such books as *The Challenge of Russia*, by Kirby Page. That wonderful experiment in the U.S.S.R. was pointing up the fallacies in the free market system.

Nearly 50 years have gone by since those days, and history has proved their propaganda to be utopian lies. The Soviet Union cannot feed itself. It has to steal industrial secrets. It must fence its people in. It exports its doctrines by force. Its educational system is a continuous process of brainwashing. Where is the *truth* in communism? If there is any, even its own disciples have been unable to find it!

How about the nobility of the Russian experiment? I submit there is none to be found in the leadership, the rulers. They have starved, tortured and killed millions of their own people. Wherever they have tried to export their philosophy they have achieved the same result. Much of the Third World is suffering the miseries of starvation and war because Marxists have infiltrated underdeveloped countries in order to make havoc of them. Then, when the depth of tragedy has been reached, they step in and take control. Where is there anything noble about such a system? Nobility is found in the Gulags, the prisons and the exiles.

Is there anything *right* about Marxism (socialism, communism, fascism, Nazism)? A current expression in America to describe something that works is, "They must be doing something right." What are they doing right in Russia, Cuba, China? If they are doing anything right, why do they have to be bailed out all the time? I agree totally with the Guatemalan leader, Dr. Manuel F. Ayau, when he says, "I, for one, believe that socialism would have disappeared from the face of the earth long ago if it were not kept alive by the United States." Their regimes continue in power by means of repression, violence and terror. They cannot afford to allow an opposing party to exist within their borders.

It probably has never occurred to anyone, either in or out of communism, to describe the system as *pure* or *lovely*. But the apostle Paul says we should think on such things. Socialism/communism is so full of deceit, coercion, intrigue, shortages, hunger, privation, and class warfare (planners vs. plannees), that one is hard pressed to discover purity and loveliness therein.

Is there anything that could be described as *excellent* in the practical applications of Marxism? We search in vain in the testimony of those who have managed to escape Russia, China, Cuba, *et al.*, to find anything that can be given unqualified praise.

The best to be said for their industry, research and development, housing, education, quality of life and morals, is that they might, in some instances, be called mediocre. More frequently the descriptions run from fair to poor to terrible. Excellence is seldom achieved via coercion; it depends on inner motivation, something that is singularly absent in a slave state.

The last item in our list is "praiseworthy," something worthy of praise. Occasionally, we hear communists referred to as dedicated, and surely dedication is praiseworthy. But are they really dedicated? I know that someone will cite the Russian and East German athletes and their numerous accomplishments as evidence. Admittedly they get high marks and set records in their various specialties. But why? Party bureaucrats scour the nation looking for promising young athletes, give them special training, housing, and perks, all of which give them the illusion of being emancipated from run-of-the-mill slavery so common in socialist countries.

Sometimes we think of the KGB agents as being dedicated, but are they? Let's face it. The pay is good, and if they can be trusted they get to live outside of Russia (or Cuba). I doubt if we should even use the word efficient to describe the KGB. If this vast spy network were really efficient, it could survive and even do a

better job with 25 per cent of its present personnel requirements.

Perhaps there are historians who are saying, "Yes, but see how communism has spread since its inception," as though they expected praise for such an accomplishment. On the same basis, we could commend the bubonic plague of the Middle Ages. I saw a bumper sticker recently which read "God loves you, and I'm trying." Well, I've tried to find something praiseworthy in interventionist governments, but so far such items have escaped me.

The Science of Scarce Goods

Let's turn our attention away from statism and ask ourselves if there really is an economic system that is compatible with the admonition of Paul, the apostle, in the Scripture verse we quoted. Economics, the science (if it may be called that) of scarce goods, touches the life of every human being on earth, even though most of them may never have heard the term. We cannot escape economics, any more than we can avoid eating and breathing. Even astronauts, although they may be away from the earth for days, weeks or months at a time, cannot remain aloof from economics. In fact, a sortie away from earth will involve them even more deeply. Air, water, and food—things they may have accepted quite lightly on the ground—become very precious to them in space. Let's face

it; one would have to die to escape our subject.

The United States of America has Christian roots, and the predominant religion of our country is still Christianity. The guidebook for Christianity is the Bible, so let us ask the question again: Is there an economic system that is compatible with what we as Christians believe?

Happily, there is. It is the free market, free enterprise, unfettered capitalism. Let's examine it together, just as we did socialism. Can we give our minds and hearts to that which is *true* and still promote a free market? Ideally, how could a free market succeed except in an atmosphere of truth? A free market assumes limited government which guarantees (to the extent of its ability) life, liberty and property, the enforcement of contracts, and the punishment of fraud. Truth is the cornerstone in the foundation of such an economy.

Christians, regardless of whether they are in positions of ownership, management or employees, would feel compelled to seek the truth and embrace it in all their economic affairs. The competitive free marketplace would even tend to make "Christians" of the unbelievers, or they would eventually be out of business.

Can we apply the term *noble* to the free market? Webster's definitions we wish to apply here are: "having or showing high moral qualities or

ideals, or greatness of character, lofty." The truly free market is always controlled by the buyers, the consumers. They have the privilege of examining what is being offered for sale to determine the quality and competitive price range. If, for any reason, the potential buyers decide they had rather not buy a particular product, they can withhold their business or take it elsewhere. If the seller alleges his product to be something which it is not, the buyer has recourse within the framework of the law. Such an arrangement tends toward nobility on the part of all concerned. The producer is free to sell to whomever he pleases, and the consumer is free to buy from whomever he pleases. The net result of this arrangement is that the producer does all within his power to provide the best possible product at a cost to the consumer which is attractive to him.

We are told in our text to think about what is *right*, so join me for a moment in considering the rightness of free enterprise. Let Webster refresh our memories: "Right: what is right, or just, lawful, morally good, proper, correct. . . ." The free market system measures up well to each facet of the definition, with the possible exception of one: *lawful*. It should not be, but here is the big problem area. The Constitution of the United States was designed and written to protect the rights of the citizens and promote the general

welfare of all of them, but over the ensuing years many politicians lost sight of this worthy intent. They began to abuse their position and authority and enacted laws that benefited a few, to the detriment of the many. Because of this, the statute books are filled with labor legislation, interstate commerce laws, minimum wage laws, tariffs, and so on.

Legal Restraints

The free market system is right, just, good, and proper, but the legal frustrations imposed upon it by its witting or unwitting enemies have placed so many boundaries around it that they who would practice it find themselves bumping their heads and stubbing their toes. Then, to compound the frustration, whenever there is a problem in the economic community, free enterprise is blamed for it! So, we find ourselves contemplating a concept which is right, but in many respects, not lawful. Shall we eliminate that which is right, or shall we erase the legal restraints against it?

Let's see how the free market system fits within the context of *pure*, *lovely*, and *admirable*. The term "unadulterated" certainly comes to mind at this point. We have all stood on the banks of streams and rivers at flood stage and felt dismay at the amount of silt and debris being carried downstream. At other times we have enjoyed watching mountain

streams tumbling over rocks and sand and noted that the water was so clean we could drink it. Socialism is a system clogged with the silt of trash produced by the State and dumped into the stream, leaving the buyers no choice but to consume it. The managed economy is a river whose flow is slowed by all kinds of legal restrictions resulting in rising prices and a limited selection for the consumer.

In Summation

Is the free economy excellent and praiseworthy? It is hard to answer this question without being redundant. A current expression goes something like this, "If it isn't broken, don't fix it." I think it would be well to apply this philosophy to our subject. History tells us that whenever and wherever the free market has been tried, it worked. Then why try to "fix" it? Those who wanted to fix it, and have too often succeeded,

may be called liars, thieves, or ignorant.

Communism (socialism) has never been a grassroots movement, but it must always be imposed on the unsuspecting by gangsters who lust for power. Instead of granting freedom to the people, they impose more and more restrictions over life and property. They even regiment whatever charity happens to survive in the hearts of the people. Freedom (within the laws to prevent fraud), on the other hand, allows for the fullest realization of the desires and ambitions of those who drink of its pure waters. All who are willing and able can do what they want and work where they will. Those who cannot participate will be cared for out of the hearts of those who can.

I believe a root of our dilemma in the twentieth century is the fact that we have not listened to the Apostle who told us to "think about such things." 

Thomas Jefferson

Resolved . . . that it would be a dangerous delusion were a confidence in the men of our choice to silence our fears for the safety of our rights: that confidence is everywhere the parent of despotism: free government is founded in jealousy and not in confidence; it is jealousy and not confidence which prescribes limited Constitutions to bind down those whom we are obliged to trust with power. . . . In questions of power then let no more be heard of confidence in man, but bind him down from mischief by the chains of the Constitution.

IDEAS ON



LIBERTY

Limited Government —and the Stability of Nations

THE importance of limited government to the cause of individual liberty has often been discussed in these pages. In short, limited government allows for maximum individual freedom and self-actualization, free from coercion. To paraphrase Thomas Jefferson, government is a necessary evil; usually, the less of it, the better.

Limited government is intimately connected with a free market economy, which allows for the ever-changing, infinitely variable nature of human economic activity far better than a series of mathematical predictions, popular “laws,” or bureaucratic regulations. A government that can meddle with market mechanisms has great power, and can always manage to gain even more power through its manipulations. Similarly, a government that

is restrained from upsetting the market system is, by definition, limited, since a significant portion of all human endeavor can be classified as economic activity, governed by the market rather than by majority rule or government order.

To illustrate the power government gains over individual freedom through economic controls, consider the possibility in licensing businesses. Most nations, even in “free” nations, require businesses to be licensed, usually as an “innocent” aid in the collection of taxes. However, in many nations, such as Allende’s Chile and Sandinista Nicaragua, these licenses have been revoked in the case of certain non-violent, tax-paying businesses. The businesses thus made illegal (and violently forced out of business) were opposition newspapers. A seemingly harmless government regulation *can* be twisted to malevolent ends, without

Mr. Daskal of Annandale, Virginia, is a defense systems analyst and writer.

a single change in the law. It is safer not to give such power to government than to trust to "traditions" or the "sanctity of human rights." The freedom to own and use property, without specific government permission, is the ultimate safeguard of political and economic freedom.

Traditions of Freedom

The importance of limited governments and the free market in other parts of the world is perhaps even more critical than it is in the United States and Canada. We have strong traditions of respect for human rights; the American Declaration of Independence holds them to be "self-evident" truths, a basic premise that cannot be challenged by thinking people. Our nations have also been blessed by relative peace and stability. Massive upheavals in government are rare; civil wars and rebellions even rarer. Ethnic and religious chauvinism, though intense at times, has never resulted in major sectarian conflicts.

In other parts of the world, the blessings of internal peace and stability are much less common. Innumerable countries in Europe, Africa, and Asia have been ripped apart by ethnic, religious, or tribal animosities. I suspect that there is something common to all of the nations experiencing this terrible, self-destructive turmoil and the vicious cycle of violence and repression it

has created. The common thread underlying much of this chaos and warfare is the failure of these peoples to limit government and allow free minds and the free market to encourage development through voluntary cooperation and the process of supply and demand.

Looking at most developing nations, and even some "developed" industrial nations in the rest of the world, one sees a significant lack of limited government and a coincident lack of free market economies. These states are on the same endless treadmill, outlined below, which can be termed the "revolutionary spoils system" of government.

(1) The poor, the intelligentsia, the workers, the army, or whomever, revolt; they see no hope of the current system addressing their grievances, and are willing to risk destruction and death to put a "more just" system in place.

(2) The revolt becomes a revolution; a new government is created, theoretically or actually representing the group or groups who began the revolt.

(3) To get and keep power, these new leaders plan a new system of laws, reorganize the economy, and often strip the group previously "on top" of their economic and political liberty. Their property is expropriated, they lose their privacy, and their freedom to speak, write, or assemble is limited or eliminated.

(4) This newly disenfranchised, oppressed class, in a matter of years, or at most generations, begins its own revolt . . . returning to step 1.

Most political historians tend to emphasize steps one and two as the most important. We often stress the "newness" of the revolutionary government, often missing the fact that whether they are "left" or "right," "Islamic," "Peronist," or "Communist," the results are sadly similar. A new privileged elite is created, and is given wealth and power through the forcible theft of the freedom and wealth of other groups of people. The net result is an economic debit, because most revolutions cause massive destruction of economic assets (farms and crops, homes and factories, transportation capital, human workers and inventors) which neither winner nor loser can use again. A corollary result is the growing, continual fear of further turmoil, which leads to faulty economic decisions by both individuals and governments such as investing wealth outside one's own country, investing in portable wealth (gold, gems, foreign currencies), or investing in weapons and security forces needed to keep the elite in power and protect their ill-gotten gains.

This cycle is repeated with infinite variations in dozens of countries. The refusal of governments to provide every person equal and honest justice and the opportunity of each to make his own course through life inevitably leads to suspicion, animosity, and ultimately violence.

Repeatedly, when the demands of

rebels in these countries are heard, they complain that they have been denied equal opportunity, equal justice before the law, equal access to the media, and equal security in their homes and businesses. Whether they be Muslims in Lebanon, Turkish Cypriots in Cyprus, Basques in Spain, Palestinians in Israel, non-Slavs in the Soviet Union, or ethnic Chinese in Vietnam or Uganda, they share common complaints. They are not allowed to speak their languages, build their businesses, educate their children, and be assured of physical security to the same extent that the group in power is. This isn't surprising, since the group in power is busily taking advantage of the oppressed group to improve their own wealth and position rather than giving equal opportunity and protection to all.

The solution to these problems is so straightforward, it is amazing that it has not been grasped by the United Nations, or the United States government, and shown to the various "leaders" who wish to restore stability to their countries. The basic concepts are nothing new or alien. They are the concepts developed through good sense, intuition, and experience by our own Founding Fathers.

(1) A federal form of national government, allowing for different ethnic, religious, or tribal groups to practice their own cultures without oppression or os-

tracism within their own autonomous locality, while allowing for easy economic and social commerce between these localities.

(2) A limited government, that cannot and does not attempt to redistribute wealth or direct activities within the localities, except to ensure the basic liberties essential to legal equality, physical security, and honest business practices in a free economy.

(3) A representative government, with appropriate checks and balances, that allows individuals to have their views on national issues heard in the highest levels of the nation, and that allows each group or locality to have equal representation.

It is increasingly urgent in our tense, heavily armed world, that the coercive "revolutionary spoils system" be replaced by peaceful, limited, federal nations with free market economies and free trade. Only through these essentially peaceful, stable governmental structures will the terrible economic and social burdens of the developing nations be able to be corrected through bal-

anced economic development. Strong constitutions, with rigid checks and balances, must be instituted to keep out the "spoils seekers," and attract people of good sense and good will into the government and into business.

The right of all peoples to maintain their religion, their culture, their heritage, and their language amongst themselves, must be acknowledged by all governments. The right of each individual to seek his or her own destiny, and be allowed to keep the wealth and property accrued through honest industry, must also be made sacrosanct. If the nations of the world fail to recognize these basic realities, they are doomed to endless repetition of the cycle of revolution, destruction, and oppression they have already endured too long. As the destructive capability of Man becomes greater, this cycle puts the people of all nations, even those relatively "free" of the cycle, at ever-increasing risk. ☸

Alexander Addison

IDEAS ON



LIBERTY

HOW LITTLE do men see, who promote insurrection or revolution, and hope to lead it, that they must soon sink under its force, and be among the first victims of the fury which they excite! However honest may be the views of its promoters, in the progress of insurrection or revolution, ignorant, violent, and wicked men will soon take the lead, and conduct an enraged people to any extremity.



Laws Against Plant Closings

“Never again in Massachusetts,” Governor Michael S. Dukakis recently promised factory workers, will they “lose their livelihoods with no warning, no health insurance for their families and no chance to plan what comes next.” The governor had just signed a law for the protection of workers against plant closings, imposing severance-pay requirements on employers and exacting other benefits for displaced workers. Three other states—Connecticut, Maine and Wisconsin—have similar laws. The legislatures of twenty-four states repeatedly considered plant-closing bills; two cities—Philadelphia and Pittsburgh—passed ordinances. Moreover, the courts and National Labor Relations Board are doing their part in making plant-

closing restrictions the law of the land.

Plant closings always impose painful costs on the participants—owners and managers, workers, local governments and local businesses. The media describe the burdens in vivid colors—the loss of jobs and livelihood, the poverty and despair, the revenue loss and fiscal distress, the business decline and community decay. But it is most significant that, in all their intense coverage, not a word is uttered about the tremendous adjustment costs to the owners. In fact, all discussions and proposals for relief merely pertain to the type and magnitude of benefits to be exacted from the owners. Typical provisions of plant-closing laws exact owner-paid severance benefits, owner reimbursement for employee retraining, continuation of health insurance coverage for specified periods after termination, payments to

Dr. Hans Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

government of specific proportions of the annual wage bill, reimbursement for employee relocation expenses, paid leave time, etc., etc.¹

Need versus Greed

The argument made in defense of such employer levies usually is threefold. First, the basic need of workers for work, wage and sustenance morally takes precedence over the owner quest for profits. In the language of displaced workers, worker livelihood takes precedence over employer greed. Second, employers are morally obliged to reinvest their profits in the plant in which they were earned so that the workers who earned the profits may benefit from them. If labor is a source of profit it is rightful and just that labor should be a beneficiary of profit. Third, labor legislation and National Labor Relations Board regulations have created unchallengeable job rights that shelter organized labor from the competition of independent labor. If organized labor has job priority over competing labor, it may also have proprietary rights. If organized workers have a legal right to their jobs it must not be denied by the owners. After all, human rights are said to take precedence over property rights.

When presented in such contraposition, which is borrowed from the stratagems of debate, the answer is as plain as the nose on one's face.

Basic needs proceed from life, which is God's creation. Who would want to argue against the priority of such needs? However, most needs are not from nature, but from custom and education. The American steel worker who faces disemployment waxes about his needs that exceed greatly those of other American workers and surpass by far the simple wants of his foreign peers.

Case studies of plant closing clearly reveal that it affects primarily high-seniority workers. Young workers are laid off long before the closing, during periods of stagnation and decline when losses are suffered and output is reduced. They are the primary victims of unemployment. The workers who are left when the gates shut permanently usually are 40 to 55 years old, have high job seniority, enjoy occupational status, have little education, and earn exceptionally high wages.² In 1982 the steel worker whose plant closed down was earning some 189 percent of wages and benefits paid in all manufactures. The automobile worker whose plant shut down was earning 165 percent of wages and benefits paid in all manufactures.³ Both the steel worker and automobile worker were senior members of powerful labor unions.

It is doubtful that most owners can match the incomes of steel and auto workers. There are millions of stockholders who directly and indirectly

invest their savings in corporate ownership. Most stockholders are middle-class Americans with average incomes who, for a greater and safer future, save a percentage of their incomes. They may own stock directly or through intermediaries such as pension funds, life insurance companies, investment companies and credit unions. When seen in this light, there are few Americans who do not invest in corporate production; 998,000 men and women directly own General Motors Corporation, 216,000 own U.S. Steel.⁴ The median earnings of American males, in 1982, were estimated at \$19,292, and those of women at \$12,532.⁵ But steel and auto workers were earning between \$23 and \$25 an hour, or \$46,000 to \$50,000 per year. It is doubtful that they earned less than most stockholders. Some 75,080 U.S. Steel stockholders were women; it is unlikely that many earned more than steelworkers.

Plant closing makes the loss of the job definite and final. Disemployed workers may encounter great difficulties finding comparable positions. But stockholders may be able to salvage all or most of their investments; they may gather their profits and desert the ship—at least, this is how many workers are viewing the situation. If it were actually true that plant closings are so profitable to owners, thousands of factories and workshops would be clos-

ing every day of the week. Why should there be any production if shutdowns are more profitable? In fact, a shutdown is a desperate measure designed to minimize losses and taken in frustration and despair about a hopeless situation. It usually inflicts severe losses on owners. When production stops, both wages and capital income grind to a halt. The owner may lose not only his income but also his savings, that is, his capital substance, which may have taken many years to accumulate.

Two particular situations short of bankruptcy may induce an owner to call a halt to production. When his plant or workshop is expected to suffer losses that in time are bound to consume his capital, he can be expected to order the shutdown. If he fails to give the order a bankruptcy judge will give it in the end. Or creditors may call a halt by refusing to grant any more credits and demanding repayment. To avoid losses is to protect not only one's material substance but also the jobs of fellow workers. It safeguards the apparatus of production that generates both capital yield and labor income and preserves labor productivity and levels of living. If these are moral objectives it follows that avoidance of loss is a moral task.

The owner may rightfully and morally consider a shutdown when his plant or workshop is expected to earn net returns that are consis-

tently lower than the market rate. It is a basic principle of the private property order that the rate of return indicates the urgency of human wants and the efficiency with which they are served. A twenty percent return, for instance, may indicate service of a relatively urgent want, a two percent return a low-priority want. A twenty percent return may be a reward for a job well done and an inducement for reinvestment; a two percent return may signal consumer reluctance or withdrawal. To serve the latter is to ignore the former and allocate scarce resources to the satisfaction of less important wants. It impairs the economic well-being of consumers, prevents the formation of capital, and renders expansion and modernization most difficult. Where would we be today if our forebears had consistently pursued least urgent wants and neglected to create productive capital?

Many factors enter into the owner's decision to halt production. He must weigh the anticipated losses from continuing production against the particular losses resulting from shutdown. Valuable fixed assets may be reduced to uselessness, specific tools and equipment to scrap iron, materials and supplies to surplus merchandise to be sold at bargain prices. Labor costs of a shutdown may be staggering as a result of the waste and unproductiveness of labor during the shutdown process, the

contractual obligations for pension and severance pay, moving expenses in case some activities and employees are transferred to other company facilities. Undoubtedly there will be legal defense costs from claims and charges lodged by labor, regulators and tax collectors. If all these costs constitute the lesser evil, the owner may choose to close his plant.

The Obligation to Reinvest

Where economic life is free, plants open and close in an unending process of adjustment and readjustment. Ever catering to the wishes and choices of consumers, businessmen make capital investments, change them, withdraw them, or replace them by more productive investments. They respond continually to changes in consumer choices, to changing techniques of production, changing labor costs, environmental costs, government levies, and many other factors that affect productivity. Uninhibited flow of scarce capital from firm to firm, industry to industry, and location to location, leads to highest productivity not only for the owners of capital but also for other people as workers and consumers. Working and living conditions improved when the blacksmith shop gave way to the auto repair shop, and the buggy factory to the auto assembly line.

There is no obligation, economic or moral, to reinvest profits in the plant

in which they were earned “so that the workers who earned the profits may benefit from them.” For the blacksmith, to reinvest his dwindling returns in better tools of production would not have altered the outcome. But he could have earned a handsome profit and simultaneously benefited society by investing his funds in automobile production and service. He would not have served the true interests of his workers by keeping them on the payroll. Labor, like capital, is under constant pressure to adjust. It, too, receives its market value and price from the services it renders to consumers who, through buying or abstention from buying, issue the production orders. The worker who quickly learns a new technology, seeks employment in a new industry, or moves to a new location where jobs abound, is rewarded for his effort. The worker who for any reason refuses to adjust to new situations, may cease to serve other people.

Consumers Allocate Returns

It is erroneous to conclude that capitalists owe their profits to the efforts and labors of workingmen, who thereby earn a residual right to profits. Workers have no better claim to the interest earned by capitalists or the profits collected by entrepreneurs than these have valid claims to workers’ wages. Production is co-operation in which each production

factor receives income according to the value ascribed to its services by the supreme directors—consumers.

Labor receives its full wages according to inexorable value principles, the providers of capital receive the market rate of interest, and entrepreneurs may earn profits or suffer losses. They all are paid in full. For labor to claim a right to investment capital is to claim the right to command someone’s savings, for the bricklayer who pours the foundation and lays the bricks to claim ownership rights to the house, and the steelworker earning 189 percent of average industrial wages to press his claim to the steel mill. If government were to enforce such claims, there would be few houses and even fewer steel mills.

The notion of workers’ rights to the plant is rooted in popular doctrines of Marx and other socialistic writers. They are making the point that the efforts and labors of workingmen generate a “surplus” over and above the wages they are getting, and that this surplus goes first into profits and other property incomes, then in large part into new investments, increasing the quantity of capital and reducing the demand for labor. To them, unemployment primarily is an investment phenomenon that brings forth a substitution of capital goods for labor. It permits capitalists to exploit labor and invest their felonious gains in ever more capital and power.

There is no need for a detailed refutation of Marxism and other versions of socialism. Other writers have elaborated and articulated the errors in great detail.⁶ But it should be pointed out again that workers do not generate surpluses over and above the wages they are getting. They engender no profits. If it were so profitable to be an employer of men, there would be no business failures, no bankruptcies, and above all, no unemployment. Employers would be bidding feverishly for more labor and reaping profits in direct proportion to their payrolls. All such notions contradict both themselves and economic reality.

Job Rights versus Property Rights

Under the influence of exploitation thought, legislators and regulators have created unchallengeable job rights for organized labor. Roscoe Pound, the eminent legal philosopher and Dean of Harvard School of Law, called them legal immunities and privileges for labor unions, their members and their officials. Organized labor is free to commit wrongs to person and property, and deprive nonmembers of the means of earning a livelihood—things which no one else can do with impunity. It enjoys special privileges as a result of certain features of American labor law, such as the elimination of proven methods of law enforcement, failure to distinguish unlawful ac-

tion by labor organizations, their leaders and their members, done outside of the employer-employee relation, from practice in that relation, and the practice of committing all matters affecting labor organization to administrative agencies instead of courts of law.⁷ The legal privileges and immunities of organized labor clearly reveal great political power that is brought to bear on legislators. This power now is put to use for new favors in the form of plant-closing laws.

Socialist doctrine clothes labor income with the sacrosanctity of "human rights" and vilifies other incomes as the evil effects of "unearned property rights." The former is said to be anchored in the inalienable right to life and liberty; the latter is said to be a product of convention and tradition, a creature of capitalism. This is why the rights of steelworkers who earn nearly twice the average American industrial income are to take precedence over the rights of stockholders no matter what their earnings should be. This is why a teacher's claim to income from a few shares of common stock, owned directly or by her pension fund, is to yield to a steelworker's claim for plant closing benefits.

"Human rights" income is denied not only to owners but also to unorganized labor. After all, the basic method of unionism is restriction of labor competition; the basic effect is

unemployment. Union bargaining is collective bargaining by a select group, which means the denial of the right to bargaining by outsiders. Unions claim the right to strike, which is the right to force other people to join the strike. Unions claim "human rights," which include the privilege to deny "human rights" to others. The fate of excluded people is of no concern to the union. When, despite the legal protection from competition, it finally prices most of its members out of the market, and turns a profitable company into a hopeless undertaking, it calls for plant-closing laws and government bailouts.

Restrictions on Closings Are Restrictions on Openings

There is a striking resemblance between plant-closing laws in the U.S. and "economic development laws" in many undeveloped countries. Foreign governments often welcome the immediate investment of American funds for purposes of productivity and employment, and simultaneously give many reasons for blocking and seizing the funds when the owner seeks to repatriate his property. They construct complex traps for capital and then wonder why, despite all the noisy enticements, little capital is venturing in. Similarly, the sponsors of plant-closing laws are demanding plant investments and reinvestments, but

when owners seek to withdraw their funds, or merely liquidate the leftovers, plant-closing laws are to seize their assets and distribute them among the workers. It takes great courage and irrepressible optimism to launch an enterprise in a state with a plant-closing law.

Many entrepreneurs are optimistic by nature, which may lead them to ignore plant-closing laws, refusing to contemplate business failure. In old, established concerns facing minimal danger of closure and liquidation, closure benefits and exactions may indeed be discounted. However, for new enterprises the risk of failure is considerably greater, which makes plant-closing laws especially onerous to them. Where business mortality is high the laws may help to reduce it by discouraging businessmen from even trying. In industries that are subject to great variations in demand or changes in technology, the laws may erect serious obstacles to new investment. In unionized industries that are stagnating or contracting, they may render new investment utterly prohibitive. In every case the closure laws reduce the demand for labor and depress wage rates. When organized labor resists the downward pressure it causes mass unemployment. In the end, the law that means to prevent unemployment by order of politicians, judges and policemen, actually creates it.

Plant-closing benefits must be viewed as just another brand of fringe benefits that may raise the cost of labor and reduce the demand for labor. To employers, they are just another levy similar to those exacting unemployment compensation, workers' compensation, Social Security contribution, and all the other mandated exactions. In the long run, they tend to reduce take-home pay by forcing employers to allocate more of a worker's earnings to his fringe benefits. Take-home pay must fall when fringe benefits rise. But this adjustment process, which takes time, is strenuously resisted by organized labor. It refuses to learn that inability to cover labor costs by labor productivity brings forth more unemployment. It is so difficult to admit that unemployment is a cost phenomenon that purges loss-inflicting labor.

Plant-closing laws give employers a powerful incentive to build plants and facilities in states that do not have closing restrictions. And if companies are located in such states they have an incentive to substitute capital for labor wherever possible, which reduces the demand for particular labor and depresses its wage rates. In situations of wage rigidity and labor resistance it causes unemployment. In the end, economic principle always prevails over the power of legislators, tax collectors and policemen.

Keeping Business in Town

Numerous plant-closing bills are proposing requirements for lengthy prenotification, generous severance pay to workers and confiscatory taxation, called community restitution.⁸ They are seeking to keep business in town by rendering closures and departures financially prohibitive. But all the threats of confiscation and restriction imposed on owners cannot make business any more durable.

A business that fails to compete effectively in the production of goods and services is bound to fail in the end. It will fail if it is found wanting in product price or quality and if, for any reason, the costs of production leave no competitive margin of return to the owners of capital. A producer who can pay only \$1 per hour for skilled labor is not competitive in the American labor market; a producer who can earn only three percent on equity capital is not competitive in the American capital market. Both are destined to fail in the end. Threats of dire consequences may make them contract or even discontinue all the sooner. Nor can Federal subsidies, grants and loans to workers and communities avert the ultimate consequences of business inability to compete.

Contrary to labor dogma, business profitability provides job protection. The best employer is a profitable employer who plans to expand his op-

erations and needs more labor. To attract qualified labor he must effectively compete not only in wage rates and fringe benefits, but also in working conditions and steadiness of work. He must be more attractive than his competitors.

Employers who for any reason suffer losses cannot offer job protection because their bosses, the consumers, do not grant protection to them. In time, losses tend to consume business capital, give rise to debt, and force business to contract and discharge labor. Alert workers observing the decline and foreseeing the end seek employment elsewhere. They abandon the ship before it runs aground. Other workers with less foresight and mobility may decide to stay to the bitter end. After all, unemployment compensation, severance pay, and other transfer benefits encourage them to wait and see. Plant-closing laws may encourage them to cling to failing employers as long as some assets are left.

In many cases workers are not just innocent bystanders and victims of business failure; they may be active parties and contributors to the dilemma. Acting in unison through a militant union, they may exact maximum pay for minimum work. Organized steel workers receive 189 percent of wages and benefits paid in all manufactures, automobile workers earn 165 percent. They earn these amounts for work performed

according to union work rules that reduce effort and output and significantly raise labor cost. And last but not least, union labor usually is angry labor with long lists of grievances. It is hostile labor that is unable and unwilling to compete.⁹

Adjusting Labor Costs

There are countless reasons for business decline and plant closing. But no matter what they should be, workers can nearly always ward off the decline and avert the closing. In many processes of production labor is the most important factor of production inasmuch as its costs exceed all other costs. A small reduction in labor cost may make a plant profitable and competitive again. A steel mill, no matter how old-fashioned its equipment, can be made to be profitable and competitive through a reduction in labor costs. Any automobile plant can be made to function again through savings in labor costs.

It is utterly senseless for any plant to shut down when labor costs are far above the average and union rules remain in effect. And yet, all over the country countless mills, factories and workshops are abandoned with labor costs at their peak. A few concessions and "givebacks" granted in exchange for future claims and favors rarely make a difference. It is sad when great steel cities turn into rust cities with union pay rates and union work rules in full force. It is

tragic when jobs are lost forever and plant and mills are razed with labor costs at record levels.

Nearly every plant, mill and workshop could be saved and the disaster of economic loss and unemployment be avoided through improvements in labor productivity and reductions in labor costs. How the American steel industry would prosper again if labor costs were lowered to market productivity levels! How the automobile industry would thrive again if the cost of labor were determined by the free choices of car buyers! Many a plant would become competitive again if only the union work rules would be rescinded and management be permitted to direct labor again. And many a mill could be saved if workers would labor in earnest instead of "spreading the work" or pressing grievances against hapless employers. Rusty mills and abandoned factories would come to life again if organized labor were to acquiesce in the market wage, which is the productivity wage.

Labor unions never relax their pressures for maximum labor cost regardless of the pain inflicted on many workers and investors. They persevere in defense of basic union ideology and their very existence. If they would listen to the warnings of one employer they would have to listen to all. If they would relax their grip on one they would have to relax on all. They would be returning to

market wages and conditions that are determined by labor productivity rather than union power. By implication they would also be admitting that their own policy of maximum pay for minimum work is an important cause of stagnation and unemployment. But they would rather linger in depression and call for plant-closing laws than to draw this conclusion.

The Cost of Government

Next to the cost of labor is the cost of government as the greatest burden of business. Most corporations pay much more in taxes than they yield in dividends to their owners. In the U.S. they face painful exactions by three levels of taxing authorities: the federal, state and local governments. State and local levies differ greatly depending on the voters' conception of entitlement and social justice. In some locations they often reach confiscatory levels at which businesses by the score are forced to close their doors; in other states and places where the levies are lower, business may prosper and expand. In international trade and commerce the combined load of federal, state and local levies and regulations may determine the competitiveness of enterprises.

In situations of depression and unemployment, government is akin to organized labor: It refuses to relax its hold on the victims. In fact, state

and local authorities usually increase their tax rates when revenue declines for any reason. They remain deaf to the cries of business because they would have to listen to all if they were to listen to one. They keep on taxing, regulating and controlling regardless of the deepening depression around them. Political entitlement and transfer take precedence over any aspect of business.¹⁰ It is sad to observe the decline of commerce and industry with tax rates at record levels. It is tragic to witness the closing of factory gates with tax collectors and union agents arguing over the possession of the gates.

Plant closings always inflict great pain on the participants. Discussion and proposals for relief usually deal with benefits to be exacted from owners, that is, more pain to be inflicted on owners. The noisiest proponents are politicians, tax collectors, and labor leaders. And yet, the more pain they manage to inflict on entrepreneurs and investors, the deeper workers sink into depression and unemployment. ☸

—FOOTNOTES—

¹Daniel A. Littman and Myung-Hoon Lee, "Plant Closings and Worker Dislocation," Richard B. McKenzie, ed., *Plant Closings: Public or Private Choices?* (Washington, D.C.: Cato Institute, 1984), p. 127.

²*Ibid.*, p. 132.

³Keinin, Mordechai E., "Wage Competitive-ness in the U.S. Auto and Steel Industries," *Contemporary Policy Issues* 4 (January 1984), pp. 39-50.

⁴*General Motors Annual Report 1983* (Detroit 1984); *U.S. Steel Corporation 1983 Annual Report* (Pittsburgh 1984).

⁵U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics Bulletin* 2175 (December 1983), p. 98.

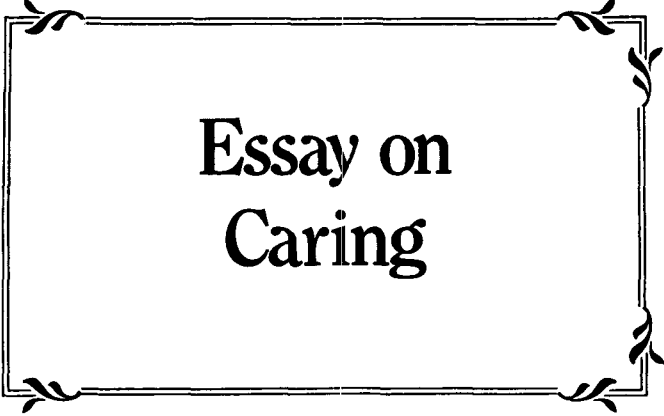
⁶Two Austrian economists, Eugen von Böhm-Bawerk and Ludwig von Mises, have exploded every aspect of the exploitation doctrine. Böhm demonstrated that it contradicts both itself and the realities of the world. Cf. *Capital and Interest*, 3 vols. (South Holland, Ill.: Libertarian Press, 1960); Mises penned a comprehensive theoretical and philosophical refutation. Cf. *Socialism* (New Haven, Conn.: Yale University Press, 1951), also *Human Action* (New Haven: Yale University Press, 1949).

⁷Roscoe Pound, *Legal Immunities of Labor Unions* (Washington, D.C.: American Enterprise Association, Inc., 1957).

⁸U.S. Representative William D. Ford, "Statements in Support of the National Employment Priorities Act," in *Plant Closings: Public or Private Choices?* ed. Richard B. McKenzie (Washington, D.C.: Cato Institute, 1984), Appendix.

⁹In the steel cities of Western Pennsylvania, Eastern Ohio and West Virginia, where unemployment among steel workers exceeds fifty percent, labor is especially hostile and angry. In Youngstown, Ohio, 989 angry school teachers and other support personnel such as librarians, counselors, and psychologists recently voted for union representation, ninety abstained from voting, and seven voted to remain free. (Youngstown, Ohio: *The Vindicator*, October 19, 1984), p. 1. What can be expected of working people if their teachers long for and depend on union representation?

¹⁰Robert M. Bleiberg, "Oh Albany!" *Baron's*, December 10, 1984, p. 9.



Essay on Caring

POLITICAL ASPIRANTS are notably “concerned and caring” for the common man. But is theirs a genuine compassion, or does it lead to plans and actions opposed to their professed aims?

I suspect that the political/economic notion of “caring” generally amounts to ideological and practical extortion.

A significant number of the self-chosen saviors of mankind employ the caring concept as a tool for self-satisfaction and aggrandizement. Just as some men and women erect concert halls and athletic field-houses as modern pyramids to proclaim the importance of their being, so too do other individuals seek recognition and remembrance by the

concoction of organized programs designed to alleviate real or feigned injustices besetting the world about them.

In some cases, the benefactor achieves substantial and tangible pleasure by participating in such a plan—he becomes involved in some activity which provides meaning to an otherwise desultory life. In other instances, his reward takes on a much more material flavor—proponents of many pseudo-charitable devices make a very good living from their parade of good works, deriving power or prestige from these endeavors. Yet another gaggle of compassionate souls creates the intangible pleasures incident to converting the resistant and erring heathen to a particular philosophical or theological point of view.

Mr. Foley, a partner in Schwabe, Williamson, Wyatt, Moore & Roberts, practices law in Portland, Oregon.

There is, of course, a fourth division—men and women who devote their efforts to assisting others in need without hope of tangible or intangible earthly rewards. Unfortunately, the numbers of this latter group appear to be declining.

The Dividing Line

A remarkable duality pervades the concept of caring and its current implementation. Force represents the dividing line. Application or refrain from coercion separates the wrongful intrusion into the sanctity of the life of another from the permissible compassionate endeavor. The law ought not impede attempts to aid others or to solve problems where those enterprises occur without compulsion. This should be true where the majority decries the problem as ridiculous or the solution as ill-advised; after all, the crowd often proves ineluctably wrong and, in any event, no human being possesses either the ability or the moral privilege to substitute his judgment for that of another choosing sentient being.

Conversely, no one should employ the legal monopoly of force to compel adherence to, participation in, or compliance with an artifice designed to better another, no matter how well intentioned or meritorious the plan. No individual should be permitted to thrust a decision or shunt responsibility for the consequences of his

choice upon another, unwilling human being. Disregard of this salient principle necessarily denies the dignity of that other individual, since moral choice and accountability constitute an essential element in the human condition.

Those who purport to care, then, must submit to a test of means and motive.

The law (rules and orders created and enforced by mankind) should not address the means employed by those who promote compassion as a political or economic discipline *except* to assure that no individual or entity compels a dissenter to assent to, support or participate in a proposal disagreeable to the latter for any reason.

All too often, those who preach caring, compassion and concern rest their case upon the root of envy: Loathe the rich and trust the poor; take from the evil producer and give to the high-principled but helpless victim of circumstance and oppression. Such caring persons really do *not* care at all about others: The creators must be plundered, the users must be pandered, by force and violence, by false premises and promises, in order to salve the promoter's inordinate ego and to effect his flawed view of mankind and the world. In these, the vast majority of instances, one can always count upon the concerned to care—for themselves!

Do Caring Programs Improve Our Lot?

Ignore for the moment the moral issue of might-makes-right in a good cause. Assume high-minded benevolence on the part of those who express concern. An essential question remains: Do the programs proposed by the "caring people" achieve meritorious results—do the solutions alleviate hunger, suffering and hurt?

Few individuals—and none of the vocal proponents of structured compassion—even pose this fundamental question, and for good reason: The undeniably negative response casts overwhelming doubt not only upon the efficacy of the particular solution but also upon the very substance upon which the adoring advocates of governmental charity base their lives! Make no mistake: All compulsive charities employ the state as the ultimate solution to any preconceived ill. One must search long and hard today to learn of organized attacks on human despair which resolutely avoid partaking of governmental subsidy or other coercive aid. Yet the presence or absence of force represents the imperative selector, the plumbline segregating acceptable and unacceptable charitable response.

Analysis of the effect of coercive programs must focus upon two discrete truths: First, the forceful response always produces unintended and unwanted consequences which

render the program counterproductive. Second, the institutional response to a problem is always less helpful than the individual response.

Initially, the unseen consequence so unerringly and eloquently described by Bastiat and Hazlitt inevitably rises up to smite those who will do good with other people's lives and property. Consider the current plight of the starving legions in Africa. Only the truly cruel eschew compassion for the suffering of another human being.

Nonetheless, most of Africa encounters famine, plague and pestilence with great regularity. Rhodesia (until its recent transmutation into Zimbabwe) and the Republic of South Africa serve as the most remarkable exceptions to this rule. The perceptive should inquire as to the reason for this recurring condition. After all, Africa contains a storehouse of natural resources, a plethora of exceptional ports, varieties of climate and rainfall, and other indicia of an ability to provide its denizens with an adequate living. Nevertheless, other nations on other continents lacking equivalent natural resources and gifts must provide both continuing subsistence and emergency foodstuffs to the people of the African Continent.

Delve beneath the superficial and one discerns the reason for this extraordinary seeming dichotomy. Slavery impoverishes; freedom feeds.

Africa contains myriad venal, oppressive and murderous political regimes dedicated to the unyielding repression of liberty and the entrenchment of socialism. A free society—necessarily including a free economy—would and always will produce an abundant outpouring of goods, services and ideas in Africa as elsewhere. Instead, the caring people importune (sometimes with force, sometimes with manipulation) their fellows to aid the starving Africans, apparently oblivious to the fact that bad values and bloody dictators have caused the current and ever-present despair. The gift of largess does little to alleviate long-term hunger in Africa. And donations strangely turn up in the pockets of dictators, dictocrats and gunrunners. Unfortunately, a concomitant effect impedes the productive from future production. Human beings robbed of the fruits of their labors tend to reduce their future production, boding ill for the next generation of starving Africans.

Other examples abound, but the point is clear. Those politicians who accuse their critics of cruel and inhuman conduct if they resist transportation of great gobs of money to the poor, the helpless, and the disadvantaged, necessarily posit the axiom that it is not cruel and inhuman to steal and distribute as a modern Robin Hood. Not only are such politicians wrong but also their very

actions will increase, not diminish, the problem perceived! As a dear and wise mentor early taught me, "No problem exists which the meddling of politicians will not make worse."

Sadly, the liberal faith in democracy resolutely clings to a belief in government as the essential vehicle to help the less fortunate. Even the "old right" concurs that the state must aid those incapable of self-assistance, and the debate between the "old right" and the "old left" normally devolves into a controversy of definitions and a discussion of the level of the state most desirable to render the assistance.

Proper Role of the State

Unfortunately, acceptance of the cliché avoids the seminal question concerning the proper role of the state. The inquiry cannot be phrased in terms of "states rights," for states possess no "rights," only powers of coercion. The proper issue is: Given the existence of human misfortune, who shall attempt to alleviate that condition? Surely *not* the state, the eternal compulsory bungler. Alleviation of distress calls for creative action. The state possesses only destructive powers. In face of calamity, we all believe that others should come to our assistance, yet charity and compulsion are mutually exclusive terms. Man ought to perform properly, and natural law (not the victim, not the positive law) ought to

exact the penalty for failure to do so.

Again, the moral and the efficient coincide. The individual response to a problem is always better than the institutional response. It is more personal, more meaningful, more efficient, more direct. It tends to reach the heart of the issue with a minimum of overhead and delay, to resist excesses, and to avoid much weeping.

I am so very tired of caring people and sharing people who search for material or emotional monuments for their good works. They care about themselves; they do not share their own, but that belonging to another. I glory in the occasional iconoclast

who disdains symbols and slogans and probes straight to the essence of a neighbor's concern, with love and without fanfare. The overworked phrase "unsung heroes" truly describes the men and women who visit the sick, comfort the elderly, soothe the confused children and perform all manner of good works. It is much easier to lobby legislators to send "aid" (tax dollars) to Africa than it is to spend an afternoon in a nursing home, or Thanksgiving serving the homeless a turkey in a volunteer mission. I think that such a rare breed truly cares many times more than all those who blather openly about their commitment. 

Socialism in Ethiopia

SOME YEARS ago I was arrested and underwent interrogation by officers in the Ethiopian army, the police, and finally by the Criminal Investigation. One of the charges against me (the only true one) was that I had given charity to some widows and orphans who were not approved by the State for private charity. I was repeatedly told that charity is the work of the State and if I wanted to help people, I must give my contributions to the governing body to distribute. (In the U.S. one is not yet arrested for helping poor widows and orphans, but charity is popularly deemed to be the work of the State and not of individuals, families, and voluntary institutions.)

Peace, economic progress, and freedom is the goal of most people, even of multitudes who profess adherence to socialist ideology. It is inevitable, however, that socialism in Africa or elsewhere is incapable of attaining these goals.

FRANCIS E. MAHAFFY, 1976

IDEAS ON



LIBERTY

Do Machines



Destroy Jobs?

YES, machines do destroy jobs. In fact, that's the purpose of machines, i.e., to do the work formerly done by labor. And if a machine doesn't replace human labor, the making of that machine has been a waste of scarce resources, including the skilled labor that invented and constructed the machine in the first place.

Usually, however, this relationship between machines and jobs is expressed more softly, e.g., machines decrease the costs of production, thus permitting lower prices to consumers; or machines are helpful to man-

kind because they can do the boring and repetitive tasks, thus freeing human laborers for the more interesting aspects of production. Both statements are true, of course. But in every case, the purpose of a machine is to replace human beings and wipe out existing jobs. That's good, however, not bad; for that process is the basis of all human progress.

In various of his essays and speeches, Frederic Bastiat clearly saw this relationship between machines and jobs. And as usual, after pointing out "what is seen," he also looked behind popular opinion for "what is not seen."

"I see some machine replacing 20 or 100 workers," wrote Bastiat. ("Human versus Mechanical Labor") But if it's true, he continued, "that the domain of invention [machines] and that of labor [jobs]

Dr. Russell, recently retired from a full schedule of academic work, continues free-lance consulting, lecturing and writing from his home in Westchester County, New York.

This is one of a series of articles examining current interventions of the welfare state in the light of warnings from the French economist and statesman, Frederic Bastiat (1801-1850).

cannot expand except at each other's expense, then it must be in places where there are the most machines—in the [textile districts of England], for example—that one should expect to find the fewest workers.” But there's where you find many thousands of workers at their new jobs of operating those machines! Bastiat continued:

The mistake made by the opponents of . . . machines is in evaluating them according to their immediate and temporary effects instead of following them out to their general and ultimate consequences.

The immediate effect of an ingenious machine is to make a certain quantity of manual labor superfluous for the attainment of a given result. But its action does not stop there. Precisely because this result is obtained with less effort, its product is made available to the public at a lower price; and the total savings thus realized by all purchasers enables them to satisfy other wants, that is, to encourage manual labor in general to exactly the same extent that it was saved in the particular branch of industry that was recently mechanized. The result is that the level of employment does not fall, even though the quantity of consumers' goods has increased.

Let us give a concrete example of this whole chain of effects.

Suppose that the French people buy ten million hats at fifteen francs each; this gives the hatmaking industry an income of 150 million francs. Someone invents a machine that permits the sale of hats at ten francs. The income of this industry is

reduced to 100 million francs, provided that the demand for hats does not increase. But the other fifty million francs are certainly not for that reason withdrawn from the support of *human labor*. Since this sum has been saved by the purchasers of hats, it will enable them to satisfy other wants and consequently to spend an equivalent amount for goods and services of every kind. With these five francs saved, John will buy a pair of shoes; James, a book; Jerome, a piece of furniture, etc. Human labor, taken as a whole, will thus continue to be supported to the extent of 150 million francs; but this sum will provide the same number of hats as before, and, in addition, satisfy other needs and wants to the extent of the fifty million francs that the machine will have saved. These additional goods are the net gain that France will have derived from the invention. It is a gratuitous gift, a tribute that man's genius will have exacted from Nature. We do not deny that in the course of the transformation a certain amount of labor will have been *displaced*; but we cannot agree that it will have been destroyed or even lessened.

Machines Mean Progress

The beneficial effects of machines are far greater than Bastiat stated—or even imagined in the 1840s in France. One of his examples of how machines increase production without decreasing the number of jobs was the textile industry in England. So I'll start there too, and dwell briefly on the fantastic outpouring of machines during the Industrial Rev-

olution, and the effect that development had on jobs and the "quality and length of life."

I'll begin by citing a few statistics I believe to be correct. And since figures never speak for themselves, but must always be spoken for, I'll offer my interpretation of their meaning.

Population of England and Wales

Year	Population
1600	5 million (rough estimate)
1700	5½ million (rough estimate)
1750	6½ million (rough estimate)
1801	9 million (census)
1820	12 million (census)
1831	16 million (census)

In London in 1750, about 70 per cent of all children died before age five.

In London in 1830 (80 years later), about 30 per cent of all children died before age five.

The so-called Industrial Revolution in England had no particular beginning date; it was a long and slow development. But the hundred years between 1750 and 1850 are the dates most often used when referring to the advent of power-driven machinery, the development of the factory system, rapid industrialization, and the *laissez-faire* or "free market" economy. And that's the period Bastiat usually had in mind when he referred to the effects of machinery and mass production.

At the time Karl Marx was de-

scribing the degrading living conditions of the people who worked in those early factory towns of industrial England, these statistics were readily available to him. For it was in "the world's greatest library" (the British Museum) that he did most of his research and writing on the "exploitation theory" that he developed into a book that shook the world. There's just no way he could have overlooked those statistics on the population-explosion that occurred in England with the advent of power-driven machinery and mass production. Since there's no reason to suggest he didn't believe what he was saying, perhaps he just didn't believe the statistics.

Since I can't know, I'll leave it with this: Karl Marx was a far better reporter than he was an economist and philosopher. The terrible and depraved living conditions of the "working classes in England" were as he described them, perhaps even worse. But he was so busy looking at the rotten trees that he never did see the flourishing forest in which they were located.

Children Lived Longer

With the advent of machinery and child labor in factories, children were living longer; a drop in the death rate from 70 per cent to 30 per cent in 80 years is a mark of tremendous progress by any measurement. An explosion of the population from a some-

what static level of six or so million in 1750 to more than 16 million in 80 years is almost unbelievable. (Perhaps *that's* why Karl Marx ignored the statistics; they strained credulity.)

At any rate, he predicted categorically that widespread poverty, mass starvation, and death among the working classes would be the inevitable results of capital formation and industrialization in a market (non-socialist) economy of private ownership. His prediction was totally wrong.

The population exploded because people began to live longer. After 1830, the rise was even faster, as hundreds of thousands of Britons poured out of those islands and settled all over the world. But I stopped my statistics with 1831 in order to forestall any possible use of invalid reasons for those impressive figures.

For example, public health measures were almost nonexistent in England in 1830; in fact, the crowded conditions in those industrial towns caused them to become far more unsanitary and disease-ridden than they had been a hundred years before. So that possibility for the increasing life span can be ruled out.

Nor were there any breakthroughs in medicine. The vaccines that were to save the lives of so many children didn't even begin to come along for another 30 years or so.

Nor was there a "green revolu-

tion" to increase the supply of food. True, the potato was coming into popularity around 1800, with its four-fold increase in food production even on marginal agricultural lands. But that was occurring mostly in Ireland and Poland. The potato didn't become a staple in England and Wales until the middle of the century.

Increasing Freedom

Even if government welfare schemes and controls over the economy could cause a rise in the material level of living, that was not a factor in this particular increase in longevity. For government interventions in the economy were actually *decreasing* during this period. Percentage-wise, there was less government welfare instead of more. The economy became increasingly free.

I can find only one reason for the increase in longevity and population. With machines, people produced more than they did without machines, and they were paid wages for their work. True enough, they were paid only a pittance for their long hours of exhausting and dangerous labor. But at least they were paid more than they had been paid before entering those primitive factories and mines. And with the little money they were paid, they could buy food, something they couldn't do before they had any jobs at all.

As a result of their spending of the

pennies (wages) they earned, food began to come into England from all over the world. And even though those workers had only a little food in their bellies, they and their children lived longer than they did without any food at all. As the machines improved, the operators of the machines produced still more, and they were paid more; not much more, it's true, but a little more. Thus they could buy even more food and live even longer—especially the children.

Finally there was enough capital (machines) available to enable a man to produce enough to put his children into schools, if he wished to do so. It was machines under private ownership, not child labor laws, that finally took children out of the factories and put them into schools. If this surprises you, think of what would necessarily happen to children today if there were no machines; we would all be grubbing from dawn to dusk—most likely for grubs themselves. And millions of us would soon die of starvation.

In addition to a dramatic increase in the life span of human beings in general, machines also rendered another signal service; specifically, machines were mostly responsible for the abolition of human slavery, a mass wiping-out of the jobs of millions of human beings. But, again, that's the purpose of machines, i.e., to abolish jobs by replacing human labor with mechanical labor.

The *Columbia Encyclopedia* tells us that "The British, in abolishing slavery, were primarily motivated by economic, not humanitarian, interests. While the institution produced great wealth under the mercantilist system, it became unprofitable with the rise of industrial capitalism."

Machines Displaced Slaves

H. G. Wells, in *The Outline of History*, discusses the same idea: "A vast proportion of mankind in the early civilizations was employed in purely mechanical drudgery. At its onset, power-driven machinery did not seem to promise any release from such unintelligent toil. . . . [But as the mechanical revolution] went on, the plain logic of the new situation asserted itself more clearly. Human beings were no longer wanted as a source of mere indiscriminated power. What could be done mechanically by a human being could be done faster and better by a machine."

Whatever else slaves might be used for, it's certain they couldn't be trusted with the responsibility of operating the power-driven ships, trains, and factory machines that were becoming increasingly common in the western world of the late 18th and early 19th centuries. Thus the ever-present moral arguments against slavery were soon butressed by the overriding economic arguments against it.

Beginning in 1833, the British Parliament rapidly outlawed the practice of slavery throughout their vast empire. Of course, it could have been merely a remarkable coincidence that slavery diminished as mechanical sources of power increased. For example, what about slavery in the United States? Since this nation had many machines, why wasn't slavery voluntarily abolished here?

Slavery in America

The history of human bondage in the United States also lends support (with a reverse twist) to the theory that machines, rather than morality or education, may have been of primary importance in determining the issue of slavery. Roger Burlingame, in his *Backgrounds of Power*, explains that reverse twist while discussing Eli Whitney's 1793 invention of the gin for cleaning cotton.

"The gin led directly to a social, economic, and political crisis. By increasing a hundred fold the productivity per worker in separating short-staple cotton from its tenacious seeds, it produced an unbalance between cleaning and picking, planting and cultivation. The faster the cotton was cleaned, the more labor was required in the field. Thus slavery, moribund in 1790, became a dominant institution. . . ."

Before the cotton gin, not much cotton was grown in the South be-

cause it was too expensive to clean by hand, even when the hands belonged to a slave. But Whitney's first crude machine enabled a man to clean 50 pounds of cotton a day, and rapid improvements to the machine soon doubled that amount. The resulting demand for cotton caused its cultivation to become highly profitable. But picking cotton was such a backbreaking and monotonous task that it was the last job a free man would take. Since, at that time, there was no machine to relieve the drudgery of the job—and since no education or skill was required—it automatically fell to slaves.

Those are two tremendous advances in the well-being of mankind that can be attributed directly to machines that were designed to put men out of work, and did. (1) With machines, we produce more, and have more, and live longer—even though we actually work less. (2) Since human slaves can't compete with inhuman machines, millions of slaves lost their jobs.

When you stop to think about it, that's a remarkable achievement for something (mechanization) that's traditionally considered the deadly enemy of the working man. The mass education that's made possible only by machines, seems merely to have intensified our hatred and fear of our benefactor.

As Bastiat said, machines do indeed eliminate *specific* jobs. But the

net result of the machines (capital formation) is to actually increase the number of jobs available in the economy. You can satisfy yourself on this point by using a five-year period to measure it.

For example, in 1980, there were a given number of jobs in the United States, along with a given amount of capital (machines). During the five-year period from 1980 to 1985, those machines eliminated hundreds of thousands of jobs. But if you compare the number of jobs at the beginning and end of that five-year period, there will be more jobs now than in 1980.

Further, the new jobs will tend to be less physically demanding, because of the machines, than the jobs they replaced. The total pay for the added jobs will be higher (on the average) than for the jobs of five years ago. In addition, there is likely to be a decrease in the number of hours worked for the higher pay. That's what machines are all about.

This relationship holds true, however, only as long as our laws are designed to encourage capital formation, i.e., more machines. If the advent of more efficient machines is forbidden or impeded, the result will indeed be more jobs—but hours of work will lengthen, the work will become more physically demanding, and pay will plummet downward.

Frederic Bastiat's satirical paragraph written 135 years ago could

just as easily have been written today: "A curse on machines! Every year, their increasing power condemns to pauperism millions of workers, taking their jobs away from them, and with their jobs their wages, and with their wages their bread! A curse on machines!"

An Increasing Reliance on Government Welfare

Why do we continue to think of machines as "the enemy"? I don't really know. I can easily understand why "an automated welding process" would be thought of as an enemy by the man who just lost his job to one. And even though I don't advocate any government interventions against peaceful people in a free market economy, I don't protest unduly the "retraining programs," or "unemployment compensation" to offer temporary support to a willing worker seriously searching for another job, or any other "politically realistic" measures designed to ease the transition from a lost job to another job. I tend to look on those measures like taxes, i.e., a cost for living in reasonable harmony with hundreds of millions of people with different viewpoints.

But that's not the problem; after all, those "job transitions" involve thousands (not millions) of people. Thus the problem goes much deeper. I suspect it's a general fear of the free market that's based on personal re-

sponsibility for our own free choices. We enjoy freedom to choose, of course. And as long as our choices turn out reasonably well, we'll defend it as a "human and inalienable right." But when the choices turn out to be unfavorable, we turn to a "greater power" for help. That's certainly understandable; it proves only that we're human beings. That "power" used to be God and, per-

haps, voluntary help from our neighbors. Increasingly, however, we're turning to government for help—all over the world.

With Bastiat, I can only recommend that we think beyond what is immediately seen, to what is not seen; think beyond the short-term effects, to the long-term effects. I know only that "more government" is not the answer. 

THE LAW by Frederic Bastiat

The law, it has been said, is nothing more than the will of tyrants. So it has been many times in history. But just laws depend upon a law which underlies the law passed by legislatures or declared by rulers. It is a law which provides the framework of liberty. Emancipation from the doleful theories of the compulsive state awaits discerning readers of this brief treatise.

This remarkable volume, translated in 1950 by Dean Russell, has been a best seller since then—one of the most clear and concise arguments of the case for limiting government in the cause of freedom.

76 pages

Cloth	\$3.50
Paperback	\$2.00

Special offer: 60 cents each for 100 or more copies (paperback) to a single address. *Order from:*

The Foundation for Economic Education, Inc.
Irvington-on-Hudson, NY 10533

(Postage paid on prepaid orders; otherwise \$2.00 per order for billing.)

Set the Standard High



ONE of my former colleagues developed a reputation for strictness as a teacher. He was a stern disciplinarian, a stickler for detail, and a fanatic for punctuality.

Although negative comments were frequently heard from his students, after their graduation they invariably looked back on his classes and expressed appreciation for his toughness. They recognized that it was because of his high expectations that they had learned English grammar and literature.

It is a time-proven fact that one tends to get out of organizations and individuals what he expects of them.

Mr. Peterson is a free-lance writer in East Greenville, Pennsylvania, anxious to share some of the lessons he's learned concerning the freedom philosophy.

We even see this principle at work in ourselves with what has been called self-fulfilling prophecy.

We have a need, both as a nation and as individuals, to set our standards high. This includes our expectations for our governments and their officials, our educational institutions and their teachers, and our religious organizations and their leaders. But it is even more important that we set high standards for ourselves as individuals.

Too often we are guilty of expecting more from others than we dare demand of ourselves. The individual is the foundation of society, and "If the foundations be destroyed, what can the righteous do?" (Psalm 11:3) On the other hand, if each individual

keeps his own standards high, the other elements of society will take care of themselves.

How can this be accomplished?

First, we can demand honesty and integrity of ourselves in business and personal life. We can pledge ourselves to maintain personal morals and professional ethics that are above reproach. We can temper all of our actions by the consistent application of the Golden Rule: "Therefore all things whatsoever ye would that men should do to you, do ye even so to them." (Matthew 7:12)

Second, we can discipline ourselves to continue our own self-improvement and self-education. Will Rogers, that august philosopher and conveyor of common sense, put it so clearly when he said, "Everybody is ignorant, only on different subjects."

Successful men, in all callings, never stop acquiring specialized knowledge related to their major purpose, business, or profession.

—Napoleon Hill

In his book *Think and Grow Rich*, Napoleon Hill wrote, "Successful men, in all callings, never stop acquiring specialized knowledge related to their major purpose, business, or profession." One who is not continually learning is doomed to

failure. On the other hand, there is no limit to the successes that can be achieved by the one who will continue learning.

Third, those of us who have families of our own can pass our high standards on to our children. Continual education by itself is insufficient. "The improvement of the understanding is for two ends," wrote John Locke, "first, our own increase of knowledge; secondly, to enable us to deliver that knowledge to others." Why shouldn't we start with those closest to us, our families?

The improvement of the understanding is for two ends: first, our own increase of knowledge; secondly, to enable us to deliver that knowledge to others.

—John Locke

We can teach our children to respect the lives, rights, and properties of others; to appreciate and defend their own freedoms; to faithfully fulfill their personal duties and responsibilities; and to work hard, giving a day's work for a day's pay. We can teach them, by word and example, a positive attitude toward the life of freedom. We can encourage them to produce to their maximum potential, which may require some seemingly impossible expectations, but, as John Stuart Mill wrote, "A pupil from whom nothing is ever de-

manded which he cannot do never does all he can."

Finally, we can look to the future with the view of perpetuating and improving upon the "American dream." As individuals are successful in setting and achieving their own increasingly idealistic goals, the nation as a whole will benefit and will become more successful in fulfilling and perpetuating that dream. By raising our standards as individuals, high standards can be effected in government, education, religion, and the rest of society around us. As Samuel Smiles wrote, "Every man's first duty is to improve, to educate, and to elevate himself, helping forward his brethren at the same time by all reasonable methods. The man who improves himself improves the world."

Every man's first duty is to improve, to educate and to elevate himself, helping forward his brethren at the same time by all reasonable methods. The man who improves himself improves the world.

—Samuel Smiles

High personal standards will produce high political standards. A free political system tends to produce leaders who are representative of the people who elect them. If those who vote have low expectations of those

they elect, the elected tend to exhibit low ethical standards with impunity. And as Geoffrey Chaucer wrote in *The Canterbury Tales*, "If gold doth rust, what shall iron do?"

On the other hand, if we, as a nation of individuals, set high standards for government in the areas of leadership, justice, and freedom, unethical and disreputable office-holders find it more difficult to "do their own thing." They tend to recognize their responsibilities to the electorate. They promote the interests of freedom and steer government toward the fulfillment of its only legitimate function, i.e., the protection of life, liberty, and property.

A pupil from whom nothing is ever demanded which he cannot do never does all he can.

—John Stuart Mill

At the same time, however, we must be alert to the presence of evil forces at work that would lead our society into ever-degenerating socialism and serfdom. John Philpot Curran sounded this warning in a speech in 1790: "The condition upon which God hath given liberty to man is eternal vigilance; which condition if he break, servitude is at once the consequence of his crime and the punishment of his guilt."

We as individuals can also set high standards for our educational systems, both public and private. We can insist on freedom of choice, non-interference from government in the marketplace of education, and high quality in curricula and achievement. We can work to insure that all private educational institutions—whether operated for financial, religious, or philosophical motives—remain free to offer their services to the consumers and to provide a broad spectrum of viewpoints.

The condition upon which God hath given liberty to man is eternal vigilance; which condition if he break, servitude is at once the consequence of his crime and the punishment of his guilt.

—John Philpot Curran

When people are free politically and economically, freedom of religion will also be evident. In the free market one religion need not fear any other religion. There is complete openness and liberty. Government acts only as a peacekeeper, protecting the free exercise of each religion while refraining from establishing any single one as the sole, approved religion. This is guaranteed in the First Amendment of our Constitution: "Congress shall make no law respecting an establishment of reli-

gion, or prohibiting the free exercise thereof. . . ."

The opposite of religious freedom is a state religion forced upon all regardless of conviction or personal preference. History clearly records the results of such a condition, whether it be a Roman Catholic Inquisition in Europe, an atheistic humanism in Communist nations, a Puritan witch-hunt in New England, or an Islamic *jihād* in the Middle East. Religious dictatorship is never compatible with personal or economic freedom.

Living as we do in a nation which purports to defend freedom of religion, we can expect our religious leaders to guide us into the spiritual truths which best bring about individual and societal stability, freedom, and prosperity. We can meditate upon and practice our beliefs without fear of persecution. And if at any time we believe another religion or sect provides for our needs better than the one to which we currently subscribe, we can reject the old and embrace the new.

Yes, we need to set the standard high in our nation. But, as in all aspects of a free society, the burden of responsibility lies on the shoulders of the individual. That's you and me. Let's not expect the government to do it for us. Let's not wait for someone else to take the lead. Let's seize the initiative and do our part. ☪

Information in the Market



DURING the “energy crisis” of the 1970s there were many false rumors about major oil companies hoarding petroleum to keep prices high. When the U.S. Department of Energy was created in 1977, one of its main branches was the Energy Information Administration. This agency has an annual budget of about \$60 million to compile statistics on the energy resources and energy production in the United States.

Few people oppose collecting this kind of information. Even oil and gas producers thought it might be a good thing to dispel hostile rumors. Yet, there is a theory behind this program that is basically flawed. The Energy Information Administration was created to provide a reliable central data base for the National En-

ergy Plan. The kind of information that a government agency like the Energy Information Administration collects, however, is *completely useless* in a free market.

There are two different theories of information. When we understand the differences between these theories, and the concepts of economics that rely upon one theory or the other, we are much better equipped to explain to friends, associates, and even politicians why the free market is the only way to solve things like an energy crisis.

Information is absolutely critical for any kind of planning, both the socialist idea of centralized national planning and the free-market method of decentralized entrepreneurial planning. Ludwig von Mises identified planning for the future as the main human quality that sets us

Joe Cobb is an economist with the Congressional Joint Economic Committee.

apart from lower forms of life. Some animals *prepare* for the coming of winter, like squirrels by storing nuts, but only mankind *plans for the future* by forgoing consumption today to create tools, capital goods, to enjoy greater wealth through higher productivity later on.

Two Models

There are two basic models of the economic process in most people's minds. One is the decentralized, incentive-led market where consumers are the final judges of business performance, where bad decisions are punished by economic loss. The other is a centralized model, in which the economy is like one big company, headed by the President with the Congress serving as a Board of Directors.

In a corporation, the managers need reliable information to choose what to produce and where to offer it for sale. A staff of statistical marketing specialists and cost accountants, as well as computer models that can simulate different "what if" situations, are valuable tools for business planning. In this case, businessmen are trying to make the best decisions they can, but they know that most forecasting is just guesswork. They can't control the consumers' buying habits. If the buyers reject their products or services, heads may roll.

Although the corporate model of

economic planning is helpful for businessmen, it is a logical fallacy to think about the larger economic system as one big company. The task of everyone in the "extended order of human cooperation," to use the term favored by Nobel-laureate F. A. Hayek, is to *discover information* and act upon it to meet the needs and economic demands of other people, most of whom cannot be identified in advance.

This kind of information cannot be reduced to statistics and stored in a computer. It is often not known in advance. Only after the consumers have judged the businessmen's attempts can anyone see who made a profit and who made a loss. Profits are informative and help the successful business planners obtain more capital to expand their activity. Losses are also informative, and they diminish the supply of capital in the hands of poor business planners. Information about success and failure is the real, hard data in a free market economy. Investors monitor winners and losers very closely.

Even for the business planners, who can benefit by using computer models and statistics, the most important facts are the *relative prices* of the raw materials and labor they must buy before bringing a new product to market. Is it less costly to produce a product like shoes with computerized equipment and a few educated workers in the United

States, or by hiring hundreds of skilled handcraftsmen in Asia? The relative prices of capital and labor will determine the answer, and the prices can only be seen accurately in a free market.

Market Price Information Essential to Business Planners

If the business planners don't have free-market price information, their cost accountants can't tell them what to do. If they don't have accurate price information about the consumers' other alternatives, their statistical marketing specialists can't forecast sales and other "what if" questions. Before computers can help anyone, they have to be fed facts and figures that can only come from a free, competitive market—from the choices and buying decisions of consumers.

The reason why business planning is useful but "national planning" is worse than useless—it is destructive to progress—is that when the government tries to take over planning, it wipes out the most important source of planning information, the relative prices of all the different

products and services that permit computers and statistics to be of value to businessmen.

This is the reason why government statistics programs are such a waste of money. The Energy Information Administration is useless to the producers of oil, gas, and electricity. It doesn't do anything for the consumer. It just creates jobs for a small number of well paid statisticians and computer operators. If this were all, however, it would be as harmless as an old warehouse full of obsolete, military surplus tents.

Unfortunately, programs like the Energy Information Administration are regarded by Congressmen and others who worry about the possibility of another energy crisis as "essential" for emergency planning and coping with any problem that may arise. The socialist theory of abolishing the free market and replacing it with the corporate model whenever it seems expedient is alive and well in Washington. Like a time bomb, this false theory of information will someday destroy us unless those who see what is wrong with it speak out and dismantle it. 

The Function of Price

IDEAS ON



LIBERTY

PRICE has an important function to perform. It equates the wanting of things with the supplying of things. The two are in balance only at the free market price. Any other price, either higher or lower, causes a surplus or a shortage.

F. A. HARPER

1985 Summer Seminars at FEE

June 23–29
July 14–20
August 4–10



For twenty-two years our annual summer seminars have offered a thorough introduction to the principles of limited government and the market economy. Our sessions attract lively and diverse groups of people—including students, teachers, business proprietors and employees.

The week includes thirty-five hours of lecture and discussion, with ample time for participants to meet informally with both staff and distinguished guest lecturers. The Foundation, situated on a five-acre estate in a quiet suburb near New York City, provides an ideal setting for a week of study and reflection.

The charge for a seminar—tuition, supplies, room and board—is \$400. Fellowships (including partial travel grants) are available. A detailed seminar brochure will be sent on request.

Please address all requests for applications and further information to:

Summer Seminars
Foundation for Economic Education
Irvington, New York 10533
(914) 591-7230

Good News and Bad

BEN WATTENBERG, as a political partisan of the late Senator "Scoop" Jackson of the State of Washington, has been at odds with his political party for a good many years. A Free Trade Democrat, he thinks the special interests and the collectivists of various stripes have laid their cuckoo eggs in a nest that is not rightfully their own. He blames the media, both print and electronic, for much of the sad state of affairs. Hence the title of his new book, *The Good News is the Bad News is Wrong* (New York: Simon and Schuster, 431 pp., \$17.95).

Wattenberg rips the conventional wisdom to shreds by constant recurrence to his own profession as a demographer. He will be called a Pollyanna or a Dr. Pangloss by many, but actually he doesn't believe it is the best of all possible worlds. He

merely thinks we are holding our own ground in a number of important ways, and he has the demographic evidence to prove it.

He begins with life expectancy, which, in the western nations, keeps lengthening from decade to decade. Then he shifts to the birth rate, which, in the non-Malthusian parts of the world, has been going down. (He calls it the birth dearth.) The rumors of a Population Bomb he deems to be utter nonsense for the United States at least.

The birth dearth, he says, could hurt our country, which depends on a reasonable increase in its population to keep the economic system going. Fortunately, immigration to this country shows no signs of slackening. The worries about illegal immigration do not bother Wattenberg in the slightest. Anyone with the

gumption to get up and go can make a welcome addition to the working population so far as Ben Wattenberg is concerned.

The Baby Boom that occurred after World War II may have been responsible for many of the youthful excesses of the Sixties, but Wattenberg is satisfied that the "do your own thing" idiocy of the Baby Boomers is a phenomenon of the past. What we now have is an Adult Boom. The Young Urban Professionals, or Yuppies, are now getting married and starting households of their own. They may settle for 1.7 children per family, but the children of immigrants will make up a needed difference. At any rate, the Yuppies will be buying new dwelling space, both of the split level variety and condominiums. The high mortgage rates won't stop them. The construction boom will spill over into other booms. Wattenberg doesn't necessarily approve of the Federal deficit, but he doesn't see it as killing prosperity in the near future if sincere efforts are made to get it under control.

Employment

Wattenberg thinks the bad news about unemployment is more than compensated for by the good news about employment. His own reading of the statistics here collides with anything you might learn by listening to the TV anchormen. The smokestack industries may not be

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at \$6.00 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

what they were, but the unemployment in steel and automobile towns has been mitigated by what has been happening in other towns that are often just over the horizon. Industrial jobs stood at close to 20 million in 1970. The figure is practically the same today, but the jobs have shifted from steel factories to plants turning out computers, high-tech office equipment and robots.

Meanwhile there has been a vast explosion in the service industries. There were some 600,000 new businesses started last year. They are what has been bringing the unemployment figures down to somewhere around 7 per cent, which is close to the "frictional" margin. Wattenberg thinks it significant that the median period of unemployment even at the depth of the recent recession was only 10.1 weeks. And un-

employment compensation took care of most of that.

Wattenberg thinks the teen-age unemployment figures are extremely misleading. Kids who are still in school get listed as job-hunters, but it is no great tragedy if they remain unemployed in any regular sense until their school days are over. This goes for black kids as well as white. The most important thing about adolescence, says Wattenberg, is that it is soon over. Eventually the teen-ager will become an adult employee.

Education

Wattenberg does not deny that much of the hard data about our education system is bad. The averages for our SAT, or Scholastic Aptitude Tests, have been declining over a long period of time. But this could be attributable to the fact that we now keep many more children in school for longer periods. The unintelligent take the tests along with the academically gifted. This brings down the average scores. But even with this concession to the egalitarians the SAT marks have recently started to go up. Wattenberg thinks we could be doing something right.

When it comes to revamping curricula, however, Wattenberg is all for listening to the critics who think our new standards for Excellence in Education demand a greater attention to so-called core revisions. He wants

to see fewer Mickey Mouse courses. He sees no reason, however, to get rid of driver training and a few other "practical" courses. "After all," he says, "who wants to live in a country where pregnant teen-agers—overdrawn at the bank, unable to cook even a simple soufflé—crack up the car."

Wattenberg considers that our Bad News Bias keeps our politicians from making reasonable compromises with those whose prime concern is with the size of the budget. He is no libertarian, and he believes in the concept of the Safety Net. But his ardor for the Welfare State has cooled rapidly over the past few years. As a neo-conservative Wattenberg finds himself at home with such figures as Irving Kristol. This means he is part of the new Fabian drift to the Right.



INSIDE THE CRIMINAL MIND

by Stanton Samenow
(Times Books, 130 Fifth Avenue, New York, NY 10011), 1984
285 pages ■ \$15.50 cloth

Reviewed by Haven Bradford Gow

PRESIDENT RONALD REAGAN, in his address to the International Association of Chiefs of Police, pointed out that every 30 minutes in the United States at least one person is murdered, nine women are raped, 67 people are robbed, 97 are assaulted

and 389 homes are burglarized. And just as tragic is that many of these criminals are "repeat offenders."

Crime casts a shadow over the lives of virtually every one of us. We install burglar alarms in our homes, put anti-theft devices on our cars, avoid the New York subways, stay indoors after dark because the streets are taken over by criminals. The criminal justice system is widely distrusted and millions of Americans buy hand guns for self-defense. Why this epidemic of crime?

At the core of the problem is a false view of human nature. Too many criminologists, penologists, and even judges accept the pernicious notion that the individual person is a creature of his environment, shaped by social forces into whatever he happens to be. The criminal is corrupted by the institutions of his society and therefore is not responsible for himself and his actions. Blame attaches to the society whose product he is.

It follows that the criminal is not personally answerable for his crimes; blame his slum background, his broken home, his shady companions, or whatever. The criminal, in short, is a "victim," who should be treated and not punished.

Dr. Samenow, who has spent years dealing with criminals takes a radically different tack: "Criminals cause crime," he writes, "not bad neighborhoods, inadequate parents, television, schools, drugs, or unem-

ployment. Crime resides within the minds of human beings and is not caused by social conditions. Once we as a society recognize this simple fact, we shall take measures radically different from current ones. To be sure, we shall continue to remedy intolerable social conditions for this is worthwhile in and of itself. But we shall not expect criminals to change because of such efforts."

Dr. Samenow adds that "Behavior is largely a product of thinking. Everything we do is preceded, accompanied, and followed by thinking. A train cannot fly for it is not so equipped. Similarly, as he is, a criminal is not equipped to be responsible. A drastic alteration must occur, and to accomplish this, a criminal requires help. The criminal must learn to identify and then abandon thinking patterns that have guided his behavior for years. He must be taught new thinking patterns that are self-evident and automatic for responsible people but are totally foreign to him. Short of this occurring, he will continue to commit crimes."

To alleviate the pervasive and persistent problem of crime, we need to have a realistic and tough-minded view of human nature, criminals and crime. Then we can develop and implement some equally realistic and tough-minded approaches to deal with the problem. 

IDEAS HAVE CONSEQUENCES

by Richard N. Weaver

(University of Chicago Press,

5801 S. Ellis Ave.,

Chicago, Ill. 60637)

190 pages ■ \$6.95 paperback

Reviewed by Tommy W. Rogers

THIS renowned volume stirred up a vigorous controversy when it first appeared in 1948; its title contributed a pregnant phrase to contemporary discourse and since the author's death his name heads a program to encourage young scholars. *Ideas Have Consequences* is one of a handful of books to appear in the middle and late forties which breached the ranks of liberal orthodoxy and opened a way for the resurgence of the freedom philosophy which is so marked a phenomenon of the past several decades.

The "consequences" Weaver condemns are many, but they come into focus in our time in the armed camps, otherwise known as modern nations. The State now depersonalizes man, mechanizes life, collectivizes property, and defers only to power. In his quest of the ideas which laid the groundwork for the present situation Weaver goes back as far as William of Occam who, declaring that only particular things are real, discredited general truths. With sus-

tained argument and lofty eloquence Weaver traces the history of a malign set of ideas from the break-up of the Middle Ages down to the modern period.

Weaver taught English at the University of Chicago, but came out of a Southern agrarian background which remained so much a part of him that he could never be comfortable with those aspects of modernity which grate harshly against what Burke referred to as "the basic inns and nesting places of human nature."

Weaver believed that liberty is most secure in a society characterized by the distributive ownership of small properties in the form of independent farms, local businesses, homes owned by their occupants. Widespread private ownership linked ineluctably to responsibility, provides the context in which one could become a complete person. Private property makes a person independent; it makes existence physically possible for the protester; livelihood independent of the State provides a metaphysical base, so to speak, for opponents of Leviathan. "To combat swirling forces of social collapse," he writes, "we must have some form of retrenchment, and especially do we need sanctuary from pagan statism . . . The attack on private property is but a further expression of the distrust of reason . . . For liberty and right reason go hand in

hand, and it is impossible to impugn one without casting reflection on the other."

Because ideas do have consequences, people who live according to a distorted or incomplete or falsified picture of reality (The Great Stereopticon, Weaver called it), sooner or later meet up with such disasters as have been visited upon the twentieth century. People who walk the road to serfdom are eventually victims of omnipotent government. Because of the validity of its premise and the substantive insights of its argument, Weaver's book has an enduring message. (E)



Freeman binders

- handsome blue leatherlex
- each binder holds twelve issues
- a handy way to organize current and past issues of *The Freeman*

\$5.00 each

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

IDEAS HAVE CONSEQUENCES

Any idea becomes our own as we are exposed to it and accept it and practice it and can explain it to friends—all done without coercion.

This pretty well describes the activities of FEE—seeking, practicing, sharing ideas on liberty, that liberty which Lord Acton identified as “the assurance that every man shall be protected in doing what he believes his duty against the influence of authority and majorities, custom and opinion.” If you'd care to join in pursuit of such ideas and ideals, just use the form below to reserve your place on **The Freeman** mailing list.

If you're already on the mailing list, but have a new address, please use this form to let us know of the change and to minimize any delays in delivery.

Sorry, this is not a mailing card; please enclose in a stamped envelope.

THE FOUNDATION FOR ECONOMIC EDUCATION IRVINGTON-ON-HUDSON, NEW YORK 10533

☐

Please add my name to receive THE FREEMAN, 64-page monthly study journal of free market, private property, limited government ideas and ideals, plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐

I'm already on your mailing list, but have a new address, as below.

Name (Please print)

Street

City State

Zip Code

APRIL 1985

Winners and Losers— A Page on Freedom, No. 18 . . . Brian Summers	195
Profit-Maker—Friend or Foe? . . . Howard Baetjer Jr.	196
Inflation: Soviet Style, 1945 . . . W. H. Peterson	207
Some Things to Think About . . . Hal Watkins	209
Limited Government Steven E. Daskal	215
Laws Against Plant Closings . . . Hans F. Sennholz	219
Essay on Caring R. K. Foley, Jr.	230
Do Machines Destroy Jobs? . . . Dean Russell	235
Set the Standard High Dennis L. Peterson	243
Information in the Market Joe Cobb	247
BOOKS:	
Good News and Bad John Chamberlain	251
Other Books	253

**THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.**
30 South Broadway
Irvington-on-Hudson, New York
10533

Non-profit organization
U.S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

MR. RICHARD G. NEAL
3701 S.GEO.MASON DR., 1715N
FALLS CHURCH VA 22041

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED